

CITY OF TECUMSEH, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For The Fiscal Year Ended
June 30, 2004**

Prepared by:
Treasurer's Department

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Tecumseh		County Lenawee	
Audit Date 6/30/04		Opinion Date 8/11/04		Date Accountant Report Submitted to State: 9/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature <i>Rehmann Robson</i>		Zip 48605	

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Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2004

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INTRODUCTORY SECTION



August 11, 2004

**To the Honorable Mayor, Members of the City Council
and Citizens of the City of Tecumseh:**

State law requires that all local governments, subject to certain size criteria, publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Tecumseh for the fiscal year ended June 30, 2004.

This report consists of management's representations concerning the finances of the City of Tecumseh. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Rehmann Robson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2004 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Tecumseh, founded in 1824 and incorporated as a city in 1954, is located in southeast Michigan. The City currently has a land area of approximately 5.4 square miles and a population of 8,574 based on the 2000 census. The government is empowered to levy a property tax on both real and personal property located within its boundaries. The government also has the power by state statute to extend its corporate limits by annexation, which is done periodically, when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1954. Policymaking and legislative authorities are vested in the governing council, a seven-member council including the mayor. The governing council is responsible, among other things, for passing ordinances and resolutions; making public policy decisions; confirming the appointments of department heads; adopting annual budgets; appointing boards, commissions, and committees; approving contracts; authorizing real estate transactions; approving payments; awarding bids; selling personal property; and hiring the government's manager and attorney. The government's manager is responsible for carrying out the policies and ordinances of the governing council, for supervising the day-to-day operations of the government, and for appointing the heads of the government's departments. The council is elected on a non-partisan basis. Council members are elected to two-year staggered terms with three council members elected each year. The mayor is elected to two-year terms. The mayor and council members are elected at-large.

The City of Tecumseh provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; sanitary sewage treatment and disposal; water treatment and distribution; economic development; recreational activities; and cultural events.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Tecumseh operates.

Local economy. The City of Tecumseh currently enjoys a favorable economic environment and local indicators point to continued stability, despite the current national economic recession. The region has a varied manufacturing and industrial base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include a refrigeration manufacturer, electrical controls and automobile component manufacturers, and several financial institutions.

The government's central business district is expected to maintain its current 98 percent occupancy rate with a variety of stores, specialty shops, and commercial businesses. Meanwhile, there continues to be a discernable trend toward steady residential growth.

Long-term financial planning. Continued economic development looks favorable for the future. The Economic Development Department is promoting additional commercial development projects and implementing an economic enhancement strategy, which primarily targets the downtown and west end commercial districts. The West Chicago Boulevard area is likely to experience increased commercial and residential development in the near future.

These favorable trends are counterbalanced, in large measure, however, by other factors. The increase in the assessed value of taxable property in the City continues to be constrained by the Headlee Amendment (which limits the annual increase in the State Equalized Value of real property) and the provisions of Proposal A (which limits increases in taxable property values to 5% or the rate of inflation, whichever is less). Taken together, these fiscal factors create a trend toward ever-tightening budgets under which the City must operate.

Finally, an increasing financial challenge for the City is the escalating costs for employee benefits, especially for medical insurance and from limited investment income in the employees retirement system. Together, these two issues impose increasing burdens on the City's fiscal structure and pose a possible peril to the long-term stability of City finances. Greater revenue growth or cost containment measures may be necessary to mitigate future stress on City finances.

Cash management policies and practices. The City is conservative in its approach to cash management. Generally, cash is deposited upon receipt in interest bearing cash management accounts. Cash from various funds may then be transferred into a governmental pool in accordance with State statutes to maximize investment earnings. Investment income is allocated to the various funds based upon their respective participation. Cash that is temporarily in excess of meeting the daily cash flow demands of the City is invested in certificates of deposit with maturities ranging from 30 to 90 days, unless matched to a specific cash flow requirement, where the maturity may be longer. This is in conformity with the City's investment policy to provide the highest return with the maximum security. Based on the advice of a professional money manager, Cemetery Care Permanent Fund cash is generally invested in U.S. government-backed securities and Pension Trust Fund cash is invested in corporate stocks and bonds, mutual funds, United States government-backed securities, and long-term certificates of deposit. These investments are consistent with the City's policy to minimize credit and market risk while maintaining a competitive yield on its portfolio. Protecting taxpayers against potential deficits is emphasized in the City's Retirement System Board investment strategy.

Risk management. Under a comprehensive plan of risk management, the City maintains property, liability, and workers compensation insurance coverage through commercial carriers and the Michigan Municipal League insurance pools. The City currently has no self-insurance programs.

Pension and other postemployment benefits. The City sponsors a single-employer defined benefit pension plan for its full-time employees. Each year, an independent actuary engaged by the employees retirement system calculates the amount of the annual contribution that the government must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. Because of the City's conservative funding policy, the government had succeeded as of June 30, 2003 in funding 88.3 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 23 years as part of the annual required contribution calculated by the actuary.

The City also provides postretirement health care benefits for retirees and their dependents. As of the end of the current fiscal year, there were 21 retired employees receiving these benefits, which are financed on an actuarial basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City's retirement system and postemployment benefits can be found in Note IV.C in the notes to the financial statements.

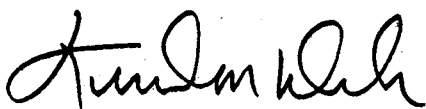
Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tecumseh for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the seventh consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the City of Tecumseh. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit also must be given to the mayor and the governing council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Tecumseh's finances.

Respectfully submitted,



Kevin M. Welch
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tecumseh,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

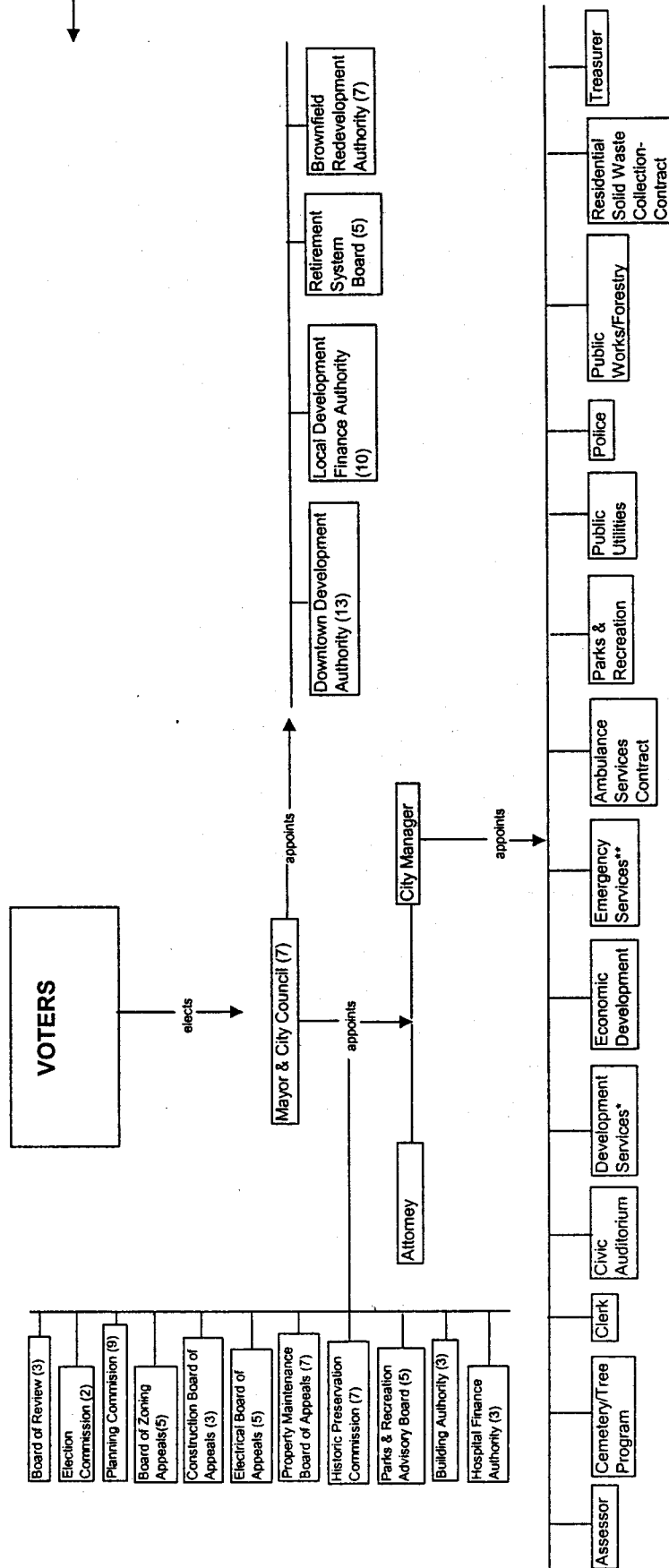
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF TECUMSEH ORGANIZATION Citizens/Taxpayers/Residents



*Building, Electrical, and Mechanical Permits, Zoning Administration, Code Enforcement
& Soil Erosion

**Fire, Rescue & Hazardous Materials

Cultural, Traditional, Economics, Financial, Legal, Political, & Social Parameters and Values

CITY OF TECUMSEH, MICHIGAN
List of Elected and Appointed Officials
For the Fiscal Year Ended June 30, 2004

Elected Officials

Mayor
Mayor Pro Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Harvey E. Schmidt
Troy Wright
Laurence Van Alstine, Jr.
Patricia A. Housekeeper
Mary Deming
David C. Malmquist
Benjamin J. Baker

Appointed Officials

Manager
Assessor
Cemetery Supervisor
Clerk
Civic Auditorium Executive Director
Development Services Director
Public Works Director
Emergency Services Chief
Parks & Recreation Director
Police Chief
Public Utilities Director
Treasurer
Economic Development Director

Kevin M. Welch
Amanda Lacelle
Dan Righter
Laura Caterina
Robert Steele
Bradley Raymond
Steven Johnston
Joseph C. Tuckey
Pat Paul Sorise
Macklin Haun
John W. Curth
Dianne M. Sackett
Paula Holtz

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

August 11, 2004

The Honorable Mayor and
Members of the City Council
City of Tecumseh
Lenawee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF TECUMSEH, MICHIGAN**, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tecumseh, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-14 and the employees retirement system information on page 54 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tecumseh's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script, reading "Lehmann Johnson".

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *City of Tecumseh, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$30,947,865 (*net assets*). Of this amount, \$2,815,459 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$2,238,644.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,390,483, an increase of \$389,561 in comparison with the prior year. Approximately 61 percent of this total amount, or \$2,186,531, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,073,024 or 25 percent of total general fund expenditures.
- The City's total bonded debt decreased by \$355,000 during the current fiscal year; no new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and recreation, community development and operation of the civic auditorium. The business-type activities of the City include water and sanitary sewer operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. The City of Tecumseh Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street and trunkline, local street, civic auditorium and civic auditorium trust funds, each of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-26 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water operations, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 27-31 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-53 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 54 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 55-67 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Tecumseh, assets exceeded liabilities by \$30,947,865 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (80 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Tecumseh's Net Assets

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 4,981,080	\$ 4,655,842	\$ 2,061,136	\$ 2,251,444	\$ 7,042,216	\$ 6,907,286
Capital assets	15,156,425	13,769,665	10,506,538	10,273,100	25,662,963	24,042,765
Total assets	20,137,505	18,425,507	12,567,674	12,524,544	32,705,179	30,950,051
Long-term liabilities outstanding	1,002,486	1,400,604	378,974	421,651	1,381,460	1,822,255
Other liabilities	322,440	359,772	53,414	58,803	375,854	418,575
Total liabilities	1,324,926	1,760,376	432,388	480,454	1,757,314	2,240,830
Net assets:						
Invested in capital assets, net of related debt	14,575,225	12,828,065	10,276,538	9,993,100	24,851,763	22,821,165
Restricted	3,214,150	3,283,400	66,493	66,493	3,280,643	3,349,893
Unrestricted	1,023,204	553,666	1,792,255	1,984,497	2,815,459	2,538,163
Total net assets	\$ 18,812,579	\$ 16,665,131	\$ 12,135,286	\$ 12,044,090	\$ 30,947,865	\$ 28,709,221

An additional portion of the City's net assets (11 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (9 percent or \$2,815,459) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$2,238,644 during the current fiscal year. Generally, this reflects the degree to which ongoing revenues exceeded ongoing expenses.

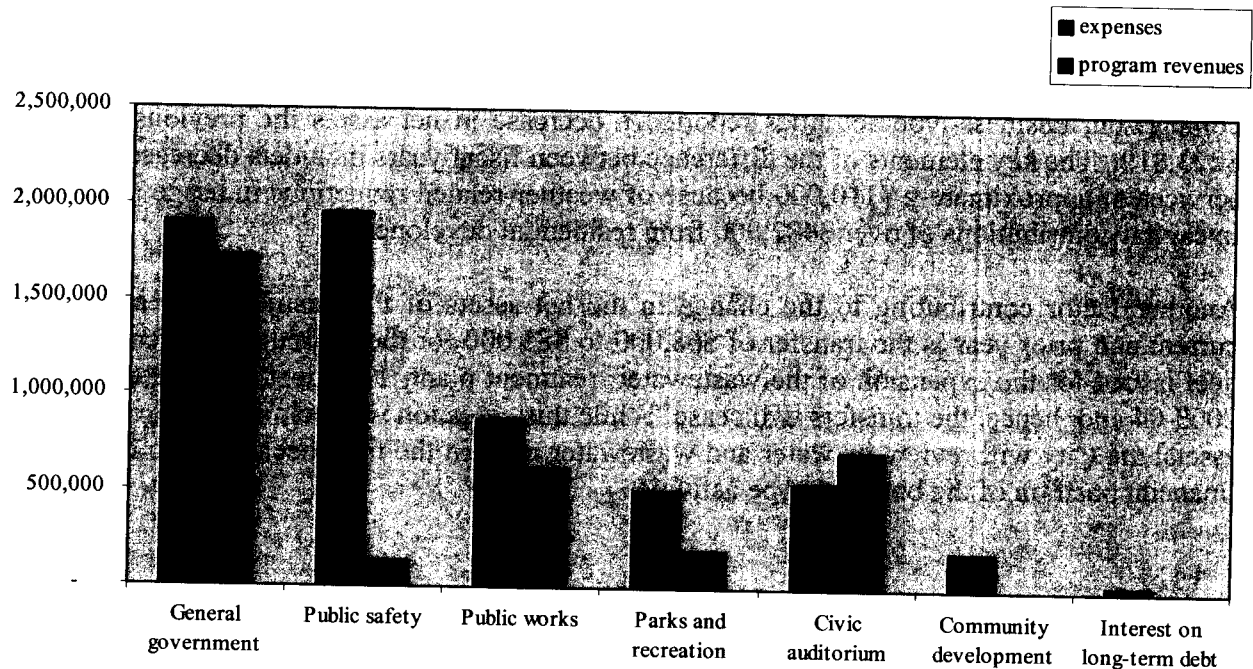
City of Tecumseh's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue:						
Program revenue:						
Charges for services	\$ 706,443	\$ 623,053	\$ 1,166,694	\$ 1,276,465	\$ 1,873,137	\$ 1,899,518
Operating grants and contributions	1,297,695	711,872	-	-	1,297,695	711,872
Capital grants and contributions	1,415,418	482,508	658,979	176,250	2,074,397	658,758
General revenue:						
Property taxes	3,730,787	3,578,655	-	-	3,730,787	3,578,655
Grants and contributions not restricted to specific programs	900,596	930,877	-	-	900,596	930,877
Other	42,173	67,831	14,356	25,729	56,529	93,560
Total revenue	8,093,112	6,394,796	1,840,029	1,478,444	9,933,141	7,873,240
Expenses:						
General government	1,902,129	1,968,749	-	-	1,902,129	1,968,749
Public safety	1,959,801	2,026,623	-	-	1,959,801	2,026,623
Public works	879,861	968,094	-	-	879,861	968,094
Parks and recreation	509,510	532,872	-	-	509,510	532,872
Civic auditorium	554,277	506,451	-	-	554,277	506,451
Community development	200,407	169,014	-	-	200,407	169,014
Interest on long-term debt	32,422	55,084	-	-	32,422	55,084
Wastewater	-	-	1,063,244	1,026,630	1,063,244	1,026,630
Water	-	-	617,593	590,288	617,593	590,288
Total expenses	6,038,407	6,226,887	1,680,837	1,616,918	7,719,244	7,843,805
Increase in net assets before transfers and contributions to permanent funds	2,054,705	167,909	159,192	(138,474)	2,213,897	29,435
Contributions to permanent funds	24,747	19,213	-	-	24,747	19,213
Transfers	67,996	85,345	(67,996)	(85,345)	-	-
Increase (decrease) in net assets	2,147,448	272,467	91,196	(223,819)	2,238,644	48,648
Net assets - beginning of year	16,665,131	16,392,664	12,044,090	12,267,909	28,709,221	28,660,573
Net assets - end of year	<u>\$ 18,812,579</u>	<u>\$ 16,665,131</u>	<u>\$ 12,135,286</u>	<u>\$ 12,044,090</u>	<u>\$ 30,947,865</u>	<u>\$ 28,709,221</u>

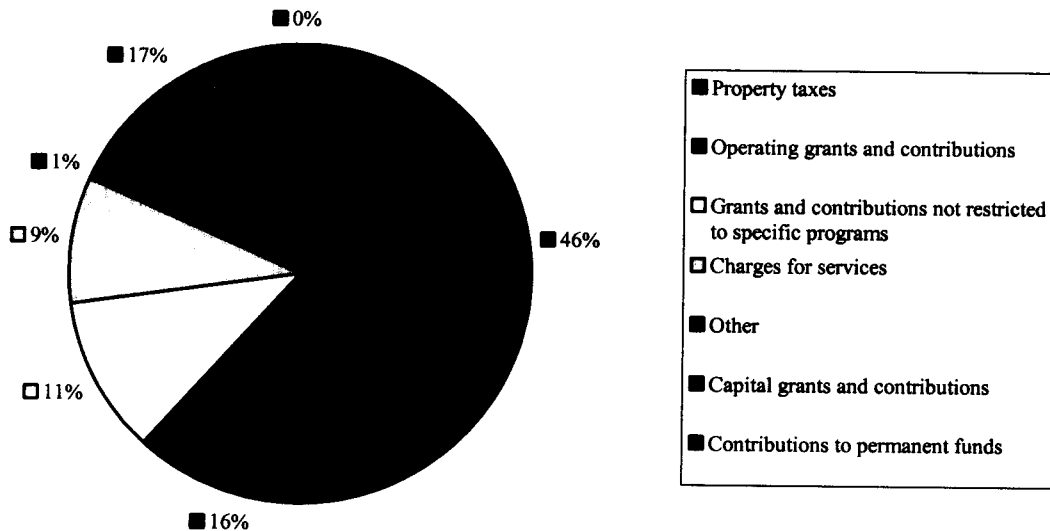
Governmental activities. Governmental activities increased the City's net assets by \$2,147,448, accounting for 96 percent of the total growth in the net assets of the City; by comparison, the prior year increase in governmental activities net assets was \$272,467 or almost \$1.9 million different. Key elements of this change include:

- An increase in property taxes of approximately \$152,000 (4.3 percent) during the year. Most of this increase was the product of increased taxable values and residential growth.
- Operating grants and contributions increased by over \$573,000, due primarily to a one-time donation to the Civic Auditorium.
- Capital grants and contributions increased by nearly \$933,000 because of residential developer contributions of infrastructure.
- An overall decrease in expenses of roughly \$188,000 (3.0 percent), which generally reflects cost control measures balanced against salary increases, increased employee benefits costs, inflation and certain spending initiatives.

Expenses and Program Revenues - Governmental Activities



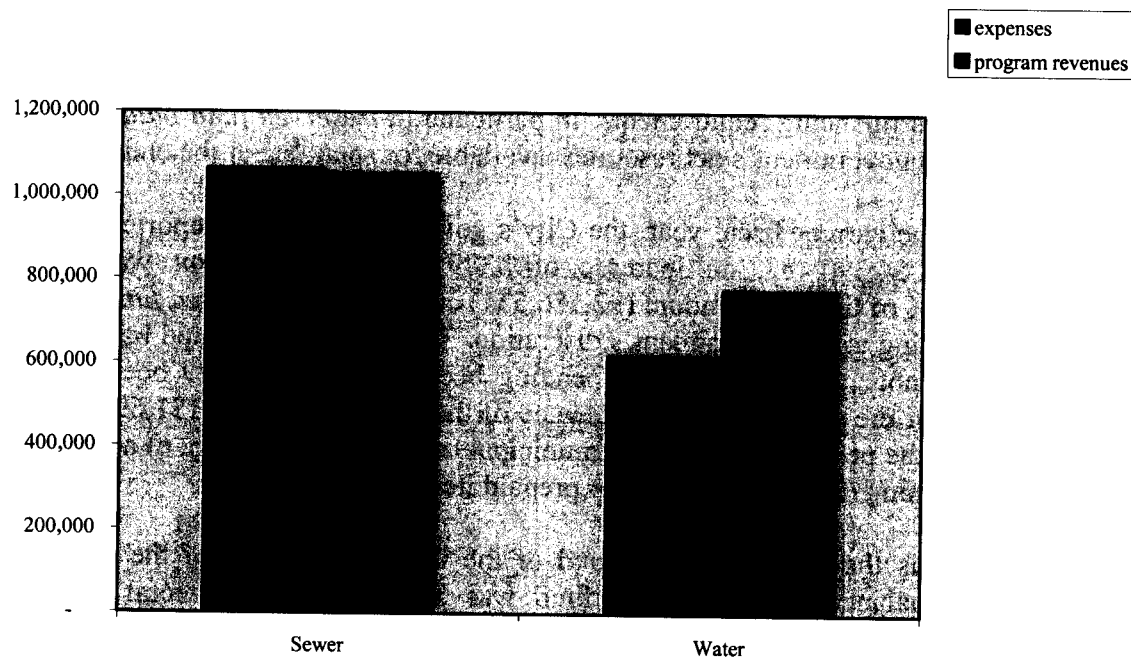
Revenues by Source - Governmental Activities



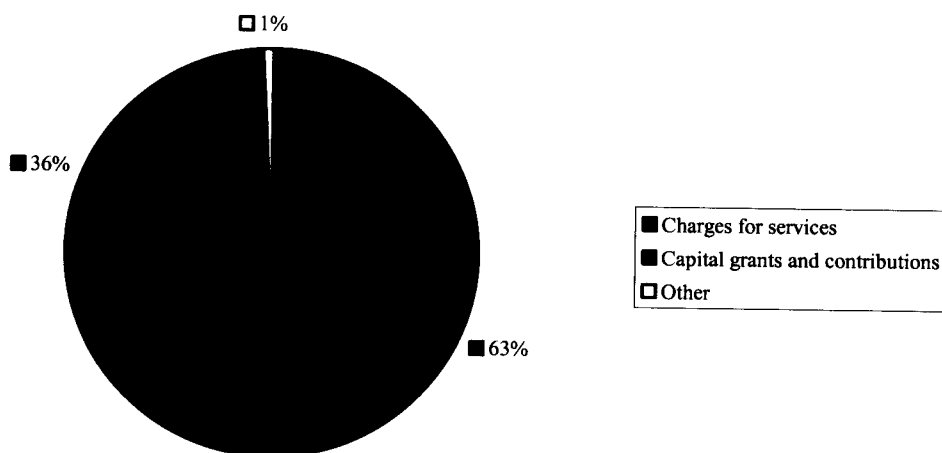
Business-type activities. Business-type activities increased the City's net assets by \$91,196. By comparison, business-type activities reported a decrease in net assets the previous fiscal year of \$223,819. The key elements of the difference between fiscal years include a decrease in charges for services of approximately \$110,000 because of weather-related reductions in usage and an increase in capital contributions of over \$482,000 from residential developers.

Another factor contributing to the change in the net assets of the business-type activities in the current and prior year is the transfer of \$68,000 to \$85,000 for the retirement of general obligation debt issued for the expansion of the wastewater treatment plant. That debt was retired during fiscal 2003-04 and, hence, the transfers will cease. While this cessation will help reduce the outflow of net assets, the City will review its water and wastewater rates in the next fiscal year to ensure a strong financial position of the business-type activities.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,390,483, an increase of \$389,561 in comparison with the prior year. Approximately 50% of this total amount (\$2,186,531) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to: a) generate income for the support and maintenance of the civic auditorium (\$1,694,364), b) generate income to pay for the perpetual care of the municipal cemetery (\$432,975), c) acquire public safety equipment and training (\$64,138), and d) for prepaid items (\$12,475).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,073,024, while total fund balance was \$1,137,162. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 25 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$448,394 during the current fiscal year. This is primarily attributable to decreased spending (i.e., actual expenditures were more than \$460,000 less than the amended budget) and revenues slightly higher than estimated.

The major street and trunkline fund has a total fund balance of \$40,395, which increased by \$20,308 during the year.

The local street fund had a decrease in fund balance for the current year of \$131,372, resulting in a fund balance of \$56,234. This use of fund balance was planned to finance various public works projects.

The civic auditorium fund has a total fund balance of \$772,091, which decreased by \$294,576 during the year. The decrease is primarily attributable to the construction of a storage building for approximately \$78,000 and an ongoing situation where expenditures continue to outpace revenues.

The civic auditorium trust fund (a permanent fund) has a fund balance of \$1,694,364, which is entirely reserved to generate future income for operations of the civic auditorium. The fund had investment earnings during the year of approximately \$4,108, received a contribution of \$500,000, and transferred \$55,934 to the civic auditorium. By the terms of the trust agreement that provided the original contributions of \$1,500,000 from the Herrick Foundation, any investment earnings not expended during the current year must be added to the principal balance.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the wastewater and water funds at the end of the year amounted to \$859,566 and \$942,029, respectively. The wastewater fund had a decrease in net assets for the year of \$70,719, whereas the water fund had an increase of \$168,522. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor, except for a \$272,000 increase under general government capital outlay for potential projects and a \$133,000 increase under parks and recreation for park development projects.

During the year, general fund budgetary estimates for revenues, expenditures and other financing sources were less than actual, resulting in a favorable change in fund balance that exceeded the final amended budget amount by approximately \$496,000.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$25,662,963 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's investment in capital assets for the current fiscal year was 6.7 percent (a 10.1 percent increase for governmental activities and a 2.3 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A variety of street construction projects at a combined cost of \$310,876.
- Capital contributions of infrastructure, wastewater and water systems by local residential developers totaling \$1,036,294.
- Completed construction on new downtown parking lots in the amount of \$746,089.

City of Tecumseh's Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,613,273	\$ 2,613,273	\$ -	\$ -	\$ 2,613,273	\$ 2,613,273
Land improvements	1,061,781	-			1,061,781	-
Buildings and systems	3,800,723	3,888,485	10,400,126	10,202,139	14,200,849	14,090,624
Vehicles	354,738	399,929	-	-	354,738	399,929
Equipment	1,508,365	1,432,389	106,412	70,961	1,614,777	1,503,350
Infrastructure	5,817,545	5,095,671	-	-	5,817,545	5,095,671
Construction in progress	-	339,918	-	-	-	339,918
Total	\$ 15,156,425	\$ 13,769,665	\$ 10,506,538	\$ 10,273,100	\$ 25,662,963	\$ 24,042,765

Additional information on the City's capital assets can be found in note III.C on pages 44-45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$645,000. Of this amount, \$415,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Tecumseh's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 415,000	\$ 720,000	\$ -	\$ -	\$ 415,000	\$ 720,000
Revenue bonds	-	-	230,000	280,000	230,000	280,000
Total	\$ 415,000	\$ 720,000	\$ 230,000	\$ 280,000	\$ 645,000	\$ 1,000,000

The City's total bonded debt decreased by \$355,000 (35.5 percent) during the current fiscal year, with no new debt issuances.

The City has a "A" rating from Standard & Poor's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$23,858,020, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note III.F on pages 47-49 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The unemployment rate for the City is currently 6.6% percent, which is an increase from a rate of 5.9% percent a year ago. This compares favorably to the state's average unemployment rate of 7.1% percent and the national average rate of 6.0% percent.
- The occupancy rate of the government's central business district has remained at 98 percent for the past three years.
- Inflationary trends in the region compare favorably to national indices.

During the current fiscal year, unreserved fund balance in the general fund increased by \$496,372 to \$1,073,024. The City has appropriated \$1,742 of general fund unreserved fund balance for spending in the 2004-05 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 309 East Chicago Boulevard, Tecumseh, Michigan 49286.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,911,716	\$ 681,430	\$ 2,593,146	\$ 127,336
Investments	2,769,893	-	2,769,893	-
Receivables	264,801	30,213	295,014	380
Internal balances	9,340	(9,340)	-	-
Prepaid items and other assets	12,475	2,474	14,949	-
Unamortized bond issuance costs	-	-	-	59,024
Restricted cash	12,855	868,240	881,095	-
Restricted investments	-	488,119	488,119	-
Capital assets not being depreciated	2,613,273	-	2,613,273	56,000
Capital assets being depreciated, net	12,543,152	10,506,538	23,049,690	-
Total assets	20,137,505	12,567,674	32,705,179	242,740
Liabilities				
Accounts payable and accrued expenses	315,928	50,424	366,352	95,345
Accrued interest payable	6,512	2,990	9,502	6,013
Unamortized bond premium	-	-	-	13,843
Long-term liabilities:				
Due within one year	442,198	104,424	546,622	65,000
Due in more than one year	560,288	274,550	834,838	1,480,000
Total liabilities	1,324,926	432,388	1,757,314	1,660,201
Net Assets				
Invested in capital assets, net of related debt	14,575,225	10,276,538	24,851,763	56,000
Restricted for:				
Civic auditorium:				
Operations	772,091	-	772,091	-
Endowment - nonexpendable	1,694,364	-	1,694,364	-
Debt service	61,460	66,493	127,953	2,258
Capital projects	92,493	-	92,493	29,508
Perpetual care - nonexpendable	432,975	-	432,975	-
Other purposes	160,767	-	160,767	-
Unrestricted (deficit)	1,023,204	1,792,255	2,815,459	(1,505,227)
Total net assets (deficit)	\$ 18,812,579	\$ 12,135,286	\$ 30,947,865	\$ (1,417,461)

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,902,129	\$ 422,343	\$ -	\$ 1,300,012	\$ (179,774)
Public safety	1,959,801	94,445	43,886	1,600	(1,819,870)
Public works	879,861	-	630,338	-	(249,523)
Parks and recreation	509,510	88,576	-	113,806	(307,128)
Civic auditorium	554,277	101,079	623,471	-	170,273
Community development	200,407	-	-	-	(200,407)
Interest on long-term debt	32,422	-	-	-	(32,422)
Total governmental activities	<u>6,038,407</u>	<u>706,443</u>	<u>1,297,695</u>	<u>1,415,418</u>	<u>(2,618,851)</u>
Business-type activities:					
Wastewater	1,063,244	673,296	-	377,831	(12,117)
Water	617,593	493,398	-	281,148	156,953
Total business-type activities	<u>1,680,837</u>	<u>1,166,694</u>	<u>-</u>	<u>658,979</u>	<u>144,836</u>
Total primary government	<u>\$ 7,719,244</u>	<u>\$ 1,873,137</u>	<u>\$ 1,297,695</u>	<u>\$ 2,074,397</u>	<u>\$ (2,474,015)</u>
Component unit					
Community development	\$ 791,787	\$ -	\$ -	\$ -	\$ (791,787)
Interest on long-term debt	<u>74,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(74,072)</u>
Total component unit	<u>\$ 865,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (865,859)</u>

continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (2,618,851)	\$ 144,836	\$ (2,474,015)	\$ (865,859)
General revenues:				
Property taxes	3,730,787	-	3,730,787	200,191
Grants and contributions not restricted to specific programs	900,596	-	900,596	-
Unrestricted investment earnings	19,223	14,356	33,579	2,969
Gain on sale of capital assets	22,950	-	22,950	-
Contributions to permanent funds	24,747	-	24,747	-
Transfers - internal activities	67,996	(67,996)	-	-
Total general revenues, contributions and transfers	4,766,299	(53,640)	4,712,659	203,160
Change in net assets	2,147,448	91,196	2,238,644	(662,699)
Net assets (deficit), beginning of year	16,665,131	12,044,090	28,709,221	(754,762)
Net assets (deficit), end of year	\$ 18,812,579	\$ 12,135,286	\$ 30,947,865	\$ (1,417,461)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF TECUMSEH, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2004

	<u>General</u>	<u>Major Street and Trunkline</u>	<u>Local Street</u>	<u>Civic Auditorium</u>	<u>Civic Auditorium Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>							
Assets							
Cash and cash equivalents	\$ 1,072,060	\$ 90,521	\$ 49,023	\$ 101,045	\$ 86,061	\$ 214,329	\$ 1,613,039
Investments	-	-	-	698,399	1,593,153	478,341	2,769,893
Accounts receivable	109,156	35,908	12,903	-	-	50	158,017
Special assessments receivable	88,831	-	-	-	-	-	88,831
Accrued interest receivable	-	-	-	2,373	15,150	-	17,523
Prepaid items	-	-	-	12,475	-	-	12,475
Restricted cash	-	-	-	12,855	-	-	12,855
<u>TOTAL ASSETS</u>	<u>\$ 1,270,047</u>	<u>\$ 126,429</u>	<u>\$ 61,926</u>	<u>\$ 827,147</u>	<u>\$ 1,694,364</u>	<u>\$ 692,720</u>	<u>\$ 4,672,633</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Accounts payable / accrued liabilities	\$ 132,885	\$ 86,034	\$ 5,692	\$ 55,056	\$ -	\$ 2,483	\$ 282,150
Fund balances:							
Reserved for:							
Civic auditorium	-	-	-	-	1,694,364	-	1,694,364
Perpetual care	-	-	-	-	-	432,975	432,975
Public safety equipment and training	64,138	-	-	-	-	-	64,138
Prepaid items	-	-	-	12,475	-	-	12,475
Unreserved:							
Designated for subsequent year	1,742	2,446	-	-	-	-	4,188
Undesignated	1,071,282	37,949	56,234	759,616	-	-	1,925,081
Designated for subsequent year - special revenue fund	-	-	-	-	-	19,064	19,064
Undesignated, reported in nonmajor:							
Special revenue funds	-	-	-	-	-	14,164	14,164
Debt service funds	-	-	-	-	-	61,460	61,460
Capital projects funds	-	-	-	-	-	92,493	92,493
Permanent fund	-	-	-	-	-	70,081	70,081
Total fund balances	<u>1,137,162</u>	<u>40,395</u>	<u>56,234</u>	<u>772,091</u>	<u>1,694,364</u>	<u>690,237</u>	<u>4,390,483</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 1,270,047</u>	<u>\$ 126,429</u>	<u>\$ 61,926</u>	<u>\$ 827,147</u>	<u>\$ 1,694,364</u>	<u>\$ 692,720</u>	<u>\$ 4,672,633</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2004

Fund balances - total governmental funds	\$ 4,390,483
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	19,971,802
Deduct - accumulated depreciation	(5,499,405)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	958,697
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(581,200)
Deduct - accrued interest on bonds payable	(6,512)
Deduct - compensated absences and other long-term liabilities	(421,286)

Net assets of governmental activities	<u>\$ 18,812,579</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General	Major Street and Trunkline	Local Street	Civic Auditorium	Civic Auditorium Trust	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes and special assessments	\$ 3,478,190	\$ -	\$ -	\$ -	\$ -	\$ 252,597	\$ 3,730,787
Licenses and permits	194,289	-	-	-	-	-	194,289
Intergovernmental	914,333	446,566	156,998	-	-	25,646	1,543,543
Charges for services	354,148	-	-	132,079	-	24,747	510,974
Fines and forfeits	40,445	-	-	-	-	-	40,445
Investment earnings	27,108	688	398	53,939	4,108	(9,597)	76,644
Contributions	113,417	-	-	34,424	500,000	-	647,841
Other revenues	34,138	-	-	-	-	-	34,138
Total revenues	<u>5,156,068</u>	<u>447,254</u>	<u>157,396</u>	<u>220,442</u>	<u>504,108</u>	<u>293,393</u>	<u>6,778,661</u>
Expenditures							
Current:							
General government	1,848,328	-	-	-	-	-	1,848,328
Public safety	1,871,376	-	-	-	-	-	1,871,376
Public works	-	716,946	340,268	-	-	-	1,057,214
Parks and recreation	542,412	-	-	-	-	-	542,412
Civic auditorium	-	-	-	570,952	-	-	570,952
Community development	-	-	-	-	-	170,177	170,177
Debt service:							
Principal	55,400	-	-	-	-	305,000	360,400
Interest and fiscal charges	9,435	-	-	-	-	26,802	36,237
Total expenditures	<u>4,326,951</u>	<u>716,946</u>	<u>340,268</u>	<u>570,952</u>	<u>-</u>	<u>501,979</u>	<u>6,457,096</u>
Revenues over (under) expenditures	<u>829,117</u>	<u>(269,692)</u>	<u>(182,872)</u>	<u>(350,510)</u>	<u>504,108</u>	<u>(208,586)</u>	<u>321,565</u>
Other financing sources (uses)							
Transfers in	125,027	290,000	51,500	55,934	-	232,246	754,707
Transfers out	(505,750)	-	-	-	(55,934)	(125,027)	(686,711)
Total other financing sources (uses)	<u>(380,723)</u>	<u>290,000</u>	<u>51,500</u>	<u>55,934</u>	<u>(55,934)</u>	<u>107,219</u>	<u>67,996</u>
Net changes in fund balances	<u>448,394</u>	<u>20,308</u>	<u>(131,372)</u>	<u>(294,576)</u>	<u>448,174</u>	<u>(101,367)</u>	<u>389,561</u>
Fund balances, beginning of year	<u>688,768</u>	<u>20,087</u>	<u>187,606</u>	<u>1,066,667</u>	<u>1,246,190</u>	<u>791,604</u>	<u>4,000,922</u>
Fund balances, end of year	<u>\$ 1,137,162</u>	<u>\$ 40,395</u>	<u>\$ 56,234</u>	<u>\$ 772,091</u>	<u>\$ 1,694,364</u>	<u>\$ 690,237</u>	<u>\$ 4,390,483</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Net change in fund balances - total governmental funds	\$ 389,561
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,863,054
Deduct - depreciation expense	(495,686)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	360,400
---	---------

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - interest revenue from governmental internal service fund	1,620
Add - net gain on disposal of capital assets in governmental internal service fund	22,950
Deduct - net operating loss from governmental activities in internal service fund	(35,984)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	3,815
Add - decrease in the accrual for compensated absences	37,718

Change in net assets of governmental activities	<u><u>\$ 2,147,448</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Taxes and special assessments	\$ 3,508,863	\$ 3,475,030	\$ 3,478,190	\$ 3,160
Licenses and permits	169,150	206,132	194,289	(11,843)
Intergovernmental	968,110	898,359	914,333	15,974
Charges for services	336,749	335,783	354,148	18,365
Fines and forfeits	36,250	41,300	40,445	(855)
Investment earnings	41,900	24,725	27,108	2,383
Contributions	-	118,367	113,417	(4,950)
Other revenues	20,900	19,782	34,138	14,356
Total revenues	<u>5,081,922</u>	<u>5,119,478</u>	<u>5,156,068</u>	<u>36,590</u>
Expenditures				
General government:				
Salaries and wages	455,041	460,996	458,605	(2,391)
Fringe benefits	224,428	185,955	186,794	839
Office expenditures	126,600	114,300	111,274	(3,026)
Contractual services	701,524	659,697	662,469	2,772
Insurance	68,391	66,361	71,361	5,000
Street lighting	86,000	86,000	87,881	1,881
Cemetery	226,360	243,156	207,779	(35,377)
Other expenditures	48,800	50,300	35,987	(14,313)
Capital outlay	44,963	317,368	40,794	(276,574)
Less: reimbursements	(18,616)	(14,616)	(14,616)	-
Total general government	<u>1,963,491</u>	<u>2,169,517</u>	<u>1,848,328</u>	<u>(321,189)</u>
Public safety:				
Police	1,424,882	1,409,386	1,388,978	(20,408)
Fire	495,756	494,823	482,398	(12,425)
Total public safety	<u>1,920,638</u>	<u>1,904,209</u>	<u>1,871,376</u>	<u>(32,833)</u>
Public works:				
Sidewalks	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>

continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final Budget</u>
Expenditures (Concluded)				
Parks and recreation:				
Parks Division	\$ 114,019	\$ 260,172	\$ 193,850	\$ (66,322)
Administrative Division	196,718	185,824	176,928	(8,896)
Recreation Division	173,319	171,968	151,080	(20,888)
Community Center Division	23,428	22,878	20,554	(2,324)
Total parks and recreation	<u>507,484</u>	<u>640,842</u>	<u>542,412</u>	<u>(98,430)</u>
Debt service:				
Principal	64,036	62,836	55,400	(7,436)
Interest and fiscal charges	9,436	9,436	9,435	(1)
	<u>73,472</u>	<u>72,272</u>	<u>64,835</u>	<u>(7,437)</u>
Total expenditures	<u>4,467,085</u>	<u>4,788,840</u>	<u>4,326,951</u>	<u>(461,889)</u>
Revenues over expenditures	<u>614,837</u>	<u>330,638</u>	<u>829,117</u>	<u>498,479</u>
Other financing sources (uses)				
Transfers in	45,000	125,027	125,027	-
Transfers out	(781,500)	(503,750)	(505,750)	(2,000)
Proceeds from sale of capital assets	80,027	-	-	-
Total other financing (uses)	<u>(656,473)</u>	<u>(378,723)</u>	<u>(380,723)</u>	<u>(2,000)</u>
Net changes in fund balance	(41,636)	(48,085)	448,394	496,479
Fund balance, beginning of year	<u>464,766</u>	<u>688,768</u>	<u>688,768</u>	<u>-</u>
Fund balance, end of year	<u>\$ 423,130</u>	<u>\$ 640,683</u>	<u>\$ 1,137,162</u>	<u>\$ 496,479</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Street and Trunkline Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Intergovernmental - state	\$ 429,519	\$ 429,519	\$ 446,566	\$ 17,047
Investment earnings	1,800	600	688	88
Total revenues	431,319	430,119	447,254	17,135
Expenditures				
Public Works:				
Street construction	461,691	224,116	248,398	24,282
Routine maintenance	392,463	377,728	352,319	(25,409)
Routine maintenance - bridges	2,164	558	5	(553)
Traffic services	15,000	12,000	12,574	574
Winter maintenance	38,305	38,305	31,579	(6,726)
Administration	63,232	64,568	61,984	(2,584)
Trunkline maintenance	19,550	19,550	10,087	(9,463)
Total expenditures	992,405	736,825	716,946	(19,879)
Revenues (under) expenditures	(561,086)	(306,706)	(269,692)	37,014
Other financing sources				
Transfers in	526,250	290,000	290,000	-
Net changes in fund balance	(34,836)	(16,706)	20,308	37,014
Fund balance, beginning of year	36,567	20,087	20,087	-
Fund balance, end of year	\$ 1,731	\$ 3,381	\$ 40,395	\$ 37,014

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Street Fund
For the Year Ended June 30, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Intergovernmental - state	\$ 153,813	\$ 153,813	\$ 156,998	\$ 3,185
Investment earnings	500	500	398	(102)
Total revenues	154,313	154,313	157,396	3,083
Expenditures				
Public Works:				
Street construction	100,436	89,173	62,478	(26,695)
Routine maintenance	246,723	243,100	227,816	(15,284)
Winter maintenance	28,783	28,783	19,573	(9,210)
Administration	31,134	31,286	30,401	(885)
Total expenditures	407,076	392,342	340,268	(52,074)
Revenues (under) expenditures	(252,763)	(238,029)	(182,872)	55,157
Other financing sources				
Transfers in	78,250	51,500	51,500	-
Net changes in fund balance	(174,513)	(186,529)	(131,372)	55,157
Fund balance, beginning of year	176,963	187,606	187,606	-
Fund balance, end of year	\$ 2,450	\$ 1,077	\$ 56,234	\$ 55,157

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Civic Auditorium
For the Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Charges for services	\$ 141,700	\$ 141,700	\$ 132,079	\$ (9,621)
Investment earnings	112,100	112,100	53,939	(58,161)
Contributions	72,500	72,500	34,424	(38,076)
Total revenues	326,300	326,300	220,442	(105,858)
Expenditures				
Civic auditorium:				
Salaries and wages	147,274	147,274	153,963	6,689
Fringe benefits	57,348	57,348	55,866	(1,482)
Office expenditures	19,250	19,250	27,547	8,297
Contractual services	90,000	90,000	144,012	54,012
Repair and maintenance	114,500	114,500	117,750	3,250
Utilities	28,000	28,000	36,381	8,381
Other expenditures	36,600	36,600	35,433	(1,167)
Total expenditures	492,972	492,972	570,952	77,980
Revenues under expenditures	(166,672)	(166,672)	(350,510)	(183,838)
Other financing sources				
Transfers in	20,000	20,000	55,934	35,934
Net changes in fund balance	(146,672)	(146,672)	(294,576)	(147,904)
Fund balance, beginning of year	900,495	1,066,667	1,066,667	-
Fund balance, end of year	\$ 753,823	\$ 919,995	\$ 772,091	\$ (147,904)

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities
	Wastewater	Water	Total	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ 288,063	\$ 393,367	\$ 681,430	\$ 298,677
Accounts receivable	-	30,213	30,213	430
Total current assets	<u>288,063</u>	<u>423,580</u>	<u>711,643</u>	<u>299,107</u>
Noncurrent assets:				
Restricted cash and cash equivalents	711,138	157,102	868,240	-
Restricted investments	-	488,119	488,119	-
Property and equipment - net	8,642,356	1,864,182	10,506,538	684,028
Other assets - unamortized discount	-	2,474	2,474	-
Total noncurrent assets	<u>9,353,494</u>	<u>2,511,877</u>	<u>11,865,371</u>	<u>684,028</u>
Total assets	<u>9,641,557</u>	<u>2,935,457</u>	<u>12,577,014</u>	<u>983,135</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	31,462	18,962	50,424	33,778
Accrued interest payable	-	2,990	2,990	-
Accrued compensated absences, current portion	38,899	15,525	54,424	-
Revenue bonds payable, current portion	-	50,000	50,000	-
Total current liabilities	<u>70,361</u>	<u>87,477</u>	<u>157,838</u>	<u>33,778</u>
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	69,274	25,276	94,550	-
Revenue bonds payable, net of current portion	-	180,000	180,000	-
Total noncurrent liabilities	<u>69,274</u>	<u>205,276</u>	<u>274,550</u>	<u>-</u>
Total liabilities	<u>139,635</u>	<u>292,753</u>	<u>432,388</u>	<u>33,778</u>
Net Assets				
Invested in capital assets, net of related debt	8,642,356	1,634,182	10,276,538	684,028
Restricted for bond reserve account	-	62,000	62,000	-
Restricted for bond redemption account	-	4,493	4,493	-
Unrestricted	<u>859,566</u>	<u>942,029</u>	<u>1,801,595</u>	<u>265,329</u>
Total net assets	<u>\$ 9,501,922</u>	<u>\$ 2,642,704</u>	<u>12,144,626</u>	<u>\$ 949,357</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>(9,340)</u>	
Net assets of business-type activities on the government-wide statement of net assets			<u>\$12,135,286</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Operating revenues				
Charges for services	\$ 759,993	\$ 580,310	\$ 1,340,303	\$ 287,626
Operating expenses				
Salaries and wages	357,707	224,805	582,512	49,639
Fringe benefits	165,080	109,159	274,239	15,567
Office expenses	7,786	3,970	11,756	-
Contractual services	43,852	4,448	48,300	-
Insurance	30,615	11,632	42,247	17,562
Supplies and materials	57,348	108,093	165,441	45,617
Utilities	109,970	38,199	148,169	8,260
Depreciation/amortization	253,402	59,852	313,254	190,140
Other expenses	35,232	38,789	74,021	3,432
Total operating expenses	1,060,992	598,947	1,659,939	330,217
Operating income (loss)	(300,999)	(18,637)	(319,636)	(42,591)
Nonoperating revenues (expenses)				
Gain on sale of equipment	-	-	-	22,950
Investment income	7,142	7,214	14,356	1,620
Interest expense	-	(14,291)	(14,291)	-
Total nonoperating revenues (expenses)	7,142	(7,077)	65	24,570
Income (loss) before transfers	(293,857)	(25,714)	(319,571)	(18,021)
Transfers out	(67,996)	-	(67,996)	-
Capital contributions	291,134	194,236	485,370	-
Change in net assets	(70,719)	168,522	97,803	(18,021)
Net assets, beginning of year	9,572,641	2,474,182	12,046,823	967,378
Net assets, end of year	\$ 9,501,922	\$ 2,642,704	\$ 12,144,626	\$ 949,357

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Reconciliation of the Statement of Revenues, Expenses
and Changes in Fund Net Assets of Enterprise Funds
to the Statement of Activities
For the Year Ended June 30, 2004

Change in net assets - all enterprise funds	\$ 97,803
<p>An internal service fund is used by management to charge the costs of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with business-type activities.</p>	
Deduct - net operating gain from business-type activities in internal service fund	<u>(6,607)</u>
Change in net assets of business-type activities	<u><u>\$ 91,196</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash flows from operating activities				
Cash received from customers	\$ 792,527	\$ 550,365	\$ 1,342,892	\$ 12,277
Cash received from interfund services	-	-	-	276,196
Cash payments to employees	(517,749)	(331,679)	(849,428)	(65,206)
Cash payments to suppliers for goods and services	(255,088)	(196,747)	(451,835)	(54,112)
Cash payments for interfund services	(14,602)	(28,242)	(42,844)	-
Net cash provided (used) by operating activities	5,088	(6,303)	(1,215)	169,155
Cash flows from non-capital financing activities				
Transfer to other fund	(67,996)	-	(67,996)	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(30,702)	(30,000)	(60,702)	(209,532)
Bond principal payments	-	(50,000)	(50,000)	-
Bond interest payments	-	(14,935)	(14,935)	-
Proceeds from sale of capital assets	-	-	-	22,950
Net cash (used) by capital and related financing activities	(30,702)	(94,935)	(125,637)	(186,582)
Cash flows from investing activities				
Proceeds from matured investments	-	484,627	484,627	-
Purchase of investments	-	(488,119)	(488,119)	-
Investment income	7,142	7,214	14,356	1,620
Net cash provided (used) by investing activities	7,142	3,722	10,864	1,620
Net increase (decrease) in cash and cash equivalents	(86,468)	(97,516)	(183,984)	(15,807)
Cash and cash equivalents, beginning of year	1,085,669	647,985	1,733,654	314,484
Cash and cash equivalents, end of year	<u>\$ 999,201</u>	<u>\$ 550,469</u>	<u>\$ 1,549,670</u>	<u>\$ 298,677</u>
Reconciliation to statement of net assets				
Cash and cash equivalents	\$ 288,063	\$ 393,367	\$ 681,430	\$ 298,677
Restricted cash and cash equivalents	711,138	157,102	868,240	-
	<u>\$ 999,201</u>	<u>\$ 550,469</u>	<u>\$ 1,549,670</u>	<u>\$ 298,677</u>

Continued...

CITY OF TECUMSEH, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (300,999)	\$ (18,637)	\$ (319,636)	\$ (42,591)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation/amortization	253,402	59,852	313,254	190,140
Changes in assets and liabilities:				
Accounts receivable	32,534	(29,945)	2,589	847
Accounts payable and accrued liabilities	15,113	(19,858)	(4,745)	20,759
Accrued compensated absences	5,038	2,285	7,323	-
Net cash provided (used) by operating activities	<u>\$ 5,088</u>	<u>\$ (6,303)</u>	<u>\$ (1,215)</u>	<u>\$ 169,155</u>
Non-Cash				
Capital contributions	<u>\$ 291,134</u>	<u>\$ 194,236</u>	<u>\$ 485,370</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Employees' Retirement System Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 430,421	\$ 15,947
Investments:		
Mutual funds	6,136,460	-
Corporate bonds	1,476,250	-
Corporate stocks	3,650,114	-
Accounts receivable	34,552	-
Delinquent taxes receivable	-	348,010
	<hr/>	<hr/>
Total assets	11,727,797	\$ 363,957
	<hr/>	<hr/>
Liabilities		
Accounts payable	-	\$ 92,073
Due to other governments	-	271,884
	<hr/>	<hr/>
Total liabilities	-	\$ 363,957
	<hr/>	<hr/>
Net assets		
Held in trust for pension and postemployment healthcare benefits	\$ 11,727,797	
	<hr/>	

The accompanying notes are an integral part of these financial statements.

CITY OF TECUMSEH, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Employees' Retirement System Pension Trust Fund
For the Year Ended June 30, 2004

Additions

Investment income:

Net realized and unrealized appreciation
in fair value of investments

\$ 949,386
410,936

Interest and dividends

Total investment income

1,360,322

Contributions:

City of Tecumseh

456,833

Participants

148,193

Total contributions

605,026

Total additions

1,965,348

Deductions

Participant benefits:

Pension

404,977

Health

25,378

Total participant benefits

430,355

Administrative expenses

20,331

Participant refunds

12,580

Total deductions

463,266

Net additions (deductions) to net assets held in trust for benefits

Employees' pension benefits

\$ 1,362,492

Postemployment healthcare benefits

139,590

1,502,082

Net assets held in trust for benefits, beginning of year

10,225,715

Net assets held in trust for benefits, end of year

Reserved for employees' pension benefits

11,188,387

Reserved for employees' postemployment healthcare benefits

539,410

\$ 11,727,797

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

CITY OF TECUMSEH, MICHIGAN

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Notes to the Financial Statements

June 30, 2004

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CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Tecumseh, Michigan is a municipal corporation governed by a seven-member council and administered by an appointed City manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The blended and discretely presented component units have June 30 year ends.

Blended component unit. The Building Authority is governed by a three member board appointed by the City Council. Its sole function is to oversee the financing and construction, if any, of the City's public buildings; therefore, it is reported as if it were part of the primary government. Currently, there are no such capital projects in process and, therefore, there are no Building Authority funds or activities reported herein.

Discretely presented component units. The Tecumseh Downtown Development Authority (DDA) is responsible for certain projects and activities whose purpose is to revitalize the downtown business district. The members of the DDA's governing board are appointed by the government's council. The DDA is also fiscally dependent upon the government because the government's council approves the DDA's budget and any debt issuances. The DDA does not issue separate financial statements; accordingly, fund financial statements for the DDA are included herein as supplementary information.

The Local Development Finance Authority of the City of Tecumseh (LDFA) is governed by a ten-member board consisting of seven members appointed by the City Manager (subject to City Council approval), one member appointed by Lenawee County, and two members appointed by Tecumseh Public Schools. The LDFA was formed to promote economic growth in the City of Tecumseh, pursuant to Public Act 281 of 1986. The LDFA has no financial activity; as such, no financial statements or information is presented.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major street and trunkline fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *local street fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *civic auditorium fund* accounts for the operation of a cultural facility.

The *civic auditorium trust fund* (a permanent fund) accounts for monies held in trust by the City, the investment earnings from which may only be used for the operation and maintenance of the cultural facility.

The government reports the following major proprietary funds:

The *wastewater fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund types:

The *internal service fund* accounts for fleet and equipment management to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The *pension trust fund* accounts for the activities of the Employees Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *agency funds* account for assets held for other governments in an agency capacity, including tax collections, D.A.R.E. funds and other project funds.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and water enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Pension Trust Fund is authorized by the State's Pension Investment Act, as amended, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.

4. Restricted assets

Certain proceeds of the Water Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Public domain infrastructure	50
System infrastructure	50
Vehicles	7-25
Equipment	5-10

6. *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Monday in April of each year, the City Manager must present the proposed budget to the government's council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than the second Monday in May.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

The appropriated budget is prepared by fund, function and department. The government's department heads may make transfers of appropriations within a department. The *general government* function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the governing council. The legal level of budgetary control is the department level. Certain supplemental budgetary appropriations were made during the year, which were not considered material.

B. Excess of expenditures over appropriations

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2004, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Fringe benefits	\$ 185,955	\$ 186,794	\$ (839)
Contractual services	659,697	662,469	(2,772)
Insurance	66,361	71,361	(5,000)
Street lighting	86,000	87,881	(1,881)
Civic Auditorium Fund	492,972	570,952	(77,980)

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year end, the carrying amount of deposits for the government and component unit were \$3,919,424 and \$127,336, respectively. The combined bank balance was \$4,591,840. Of the bank balance, \$202,795 was covered by federal depository insurance. The remaining balance of \$4,389,045 was uninsured and uncollateralized.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the City's investment balances were as follows:

	<u>Category</u>				<u>Carrying Amount (Fair Value)</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>	
U.S. government securities	\$ 2,291,552	\$ -	\$ -	\$ -	\$ 2,291,552
Corporate bonds	1,476,250	-	-	-	1,476,250
Corporate stocks	<u>3,650,114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,650,114</u>
Total categorized investments	<u>\$ 7,417,916</u>	<u>\$ -</u>	<u>\$ -</u>	-	7,417,916
Mutual and cash management funds (uncategorized as to risk)				<u>7,102,920</u>	<u>7,102,920</u>
Total investments				<u>\$7,102,920</u>	<u>\$ 14,520,836</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and cash equivalents	\$2,593,146	\$ 127,336
Investments	2,769,893	-
Restricted cash	881,095	-
Restricted investments	<u>488,119</u>	<u>-</u>
	<u>6,732,253</u>	<u>127,336</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Fiduciary Net Assets:		
Pension Trust Fund:		
Cash and cash equivalents	\$ 430,421	\$ -
Investments	11,262,824	-
Agency Funds:		
Cash and cash equivalents	<u>15,947</u>	<u>-</u>
	<u>11,709,192</u>	<u>-</u>
	<u>\$18,441,445</u>	<u>\$ 127,336</u>

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$ 3,919,424	\$ 127,336
Investments in securities, mutual funds and similar vehicles	14,520,836	-
Cash on hand	<u>1,185</u>	<u>-</u>
	<u>\$18,441,445</u>	<u>\$ 127,336</u>

B. Receivables

Receivables in the governmental activities are 54 percent due from other governments, 34 percent special assessments receivable, and 12 percent other receivables. Business-type activities receivables are composed entirely of amounts due from customers.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,613,273	\$ -	\$ -	\$ 2,613,273
Construction in progress	339,918	-	(339,918)	-
	<u>2,953,191</u>	<u>-</u>	<u>(339,918)</u>	<u>2,613,273</u>
Capital assets, being depreciated:				
Land improvements	-	1,089,006	-	1,089,006
Buildings	6,555,070	78,470	-	6,633,540
Vehicles	972,340	20,780	(42,234)	950,886
Equipment	3,255,045	362,448	(39,368)	3,578,125
Infrastructure	6,134,556	861,800	-	6,996,356
Total capital assets being depreciated	<u>16,917,011</u>	<u>2,412,504</u>	<u>(81,602)</u>	<u>19,247,913</u>
Less accumulated depreciation for:				
Land improvements	-	(27,225)	-	(27,225)
Buildings	(2,666,585)	(166,232)	-	(2,832,817)
Vehicles	(572,411)	(65,971)	42,234	(596,148)
Equipment	(1,822,656)	(286,472)	39,368	(2,069,760)
Infrastructure	(1,038,885)	(139,926)	-	(1,178,811)
Total accumulated depreciation	<u>(6,100,537)</u>	<u>(685,826)</u>	<u>81,602</u>	<u>(6,704,761)</u>
Total capital assets, being depreciated, net	<u>10,816,474</u>	<u>1,726,678</u>	<u>-</u>	<u>12,543,152</u>
Governmental activities capital assets, net	<u>\$ 13,769,665</u>	<u>\$ 1,726,678</u>	<u>\$ (339,918)</u>	<u>\$ 15,156,425</u>
Business-type activities				
Capital assets, being depreciated:				
Buildings and systems	\$ 14,663,414	\$ 485,370	\$ -	\$ 15,148,784
Equipment	145,489	60,701	-	206,190
Total capital assets being depreciated	<u>14,808,903</u>	<u>546,071</u>	<u>-</u>	<u>15,354,974</u>
Less accumulated depreciation for:				
Buildings and systems	(4,461,275)	(287,383)	-	(4,748,658)
Equipment	(74,528)	(25,250)	-	(99,778)
Total accumulated depreciation	<u>(4,535,803)</u>	<u>(312,633)</u>	<u>-</u>	<u>(4,848,436)</u>
Business-type activities capital assets, net	<u>\$ 10,273,100</u>	<u>\$ 233,438</u>	<u>\$ -</u>	<u>\$ 10,506,538</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Primary Government

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 41,151
Public safety	166,799
Public works, including depreciation of general infrastructure assets	147,553
Parks and recreation	50,355
Civic auditorium	61,734
Community development	28,094
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>190,140</u>

Total depreciation expense - governmental activities	<u>\$ 685,826</u>
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Business-type activities:

Wastewater	\$ 253,402
Water	<u>59,231</u>

Total depreciation expense - business-type activities	<u>\$ 312,633</u>
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Discretely presented component unit

The Downtown Development Authority owns land that was originally purchased for \$56,000. There were no increases or decreases to the Authority's capital assets during the year.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

D. Payables

Payables in the governmental activities are 77 percent vendors, 14 percent deposits and 9 percent employer pension contributions. Business-type activities payables are 87 percent vendors and 13 percent employer pension contributions.

E. Interfund receivables, payables and transfers

At June 30, 2004, no amounts were reported as interfund receivables and payables in the fund financial statements. However, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

For the year then ended, interfund transfers consisted of the following:

	<u>Transfer from:</u>				<u>Total</u>
	<u>General</u> <u>Fund</u>	<u>Civic</u> <u>Auditorium</u> <u>Trust Fund</u>	<u>Nonmajor</u> <u>Governmental</u>	<u>Wastewater</u> <u>Fund</u>	
Transfer to:					
General fund	\$ -	\$ -	\$ 125,027	\$ -	\$ 125,027
Major street	290,000	-	-	-	290,000
Local street	51,500	-	-	-	51,500
Nonmajor governmental	164,250	55,934	-	67,996	288,180
	<u>\$ 505,750</u>	<u>\$ 55,934</u>	<u>\$ 125,027</u>	<u>\$ 67,996</u>	<u>\$ 754,707</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities as well as the component unit. The original amount of general obligation bonds issued in prior years for the items listed below was \$975,000. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:		
General government	4.6% - 4.8%	<u>\$ 415,000</u>
Component Unit - Downtown Development Authority:		
General government	3.65% - 5.0%	<u>\$ 1,545,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 125,000	\$ 16,660	\$ 65,000	\$ 72,158
2006	135,000	10,613	70,000	69,802
2007	155,000	3,720	80,000	67,178
2008	-	-	90,000	63,978
2009	-	-	95,000	60,332
2010-2014	-	-	450,000	229,848
2015-2019	-	-	445,000	132,116
2020-2021	-	-	250,000	18,810
	<u>\$ 415,000</u>	<u>\$ 30,993</u>	<u>\$ 1,545,000</u>	<u>\$ 714,222</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Revenue bonds. The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of revenue bonds issued in prior years for the item listed below was \$620,000. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water supply system	5.15 - 5.2%	<u>\$ 230,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 50,000	\$ 11,960
2006	55,000	9,360
2007	60,000	6,500
2008	<u>65,000</u>	<u>3,380</u>
Total	<u>\$ 230,000</u>	<u>\$ 31,200</u>

Purchase agreements. The government has entered into two installment purchase agreements for the acquisition of real property. The original amount of these obligations was \$277,000 and carry interest at a stated rate of 4.866 percent. No new purchase agreements were entered into during the year current. Annual debt service requirements to maturity for purchase agreements are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 55,400	\$ 6,739
2006	55,400	4,044
2007	<u>55,400</u>	<u>1,348</u>
	<u>\$ 166,200</u>	<u>\$ 12,131</u>

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Advance refundings. In prior years, the City defeased certain general obligation bonds by placing the proceeds of a new bond issue in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At June 30, 2004, \$525,000 of bonds outstanding are considered defeased.

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
<u>Primary Government</u>					
Governmental activities					
General obligation bonds \$	720,000	\$ -	\$ 305,000	\$ 415,000	\$ 125,000
Purchase agreements	221,600	-	55,400	166,200	55,400
Compensated absences	459,004	247,519	285,237	421,286	261,798
	<u>\$ 1,400,604</u>	<u>\$ 247,519</u>	<u>\$ 645,637</u>	<u>\$ 1,002,486</u>	<u>\$ 442,198</u>
Business-type activities					
Revenue bonds	\$ 280,000	\$ -	\$ 50,000	\$ 230,000	\$ 50,000
Compensated absences	141,651	76,386	69,063	148,974	54,424
	<u>\$ 421,651</u>	<u>\$ 76,386</u>	<u>\$ 119,063</u>	<u>\$ 378,974</u>	<u>\$ 104,424</u>
<u>Component Unit</u>					
General obligation bonds	<u>\$ 1,600,000</u>	<u>\$ -</u>	<u>\$ 55,000</u>	<u>\$ 1,545,000</u>	<u>\$ 65,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

G. Segment information--enterprise funds

The government issued revenue bonds to finance certain improvements to its water distribution and treatment system. Because the Water Fund, an individual fund that accounts entirely for the government's water distribution and treatment activities, is a segment and is reported as a major fund in the fund financial statements, segment disclosures herein are not required.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

H. Restricted assets

The balances of the restricted asset accounts are as follows:

	Governmental activities	Business-type activities		
		Wastewater	Water	Total
Civic auditorium contribution	\$ 12,855	\$ -	\$ -	\$ -
Wastewater fund - capital replacement	-	711,138	-	711,138
Water fund:				
Capital replacement	-	-	578,728	578,728
Bond reserve	-	-	62,000	62,000
Bond redemption	-	-	4,493	4,493
Total restricted assets	\$ 12,855	\$ 711,138	\$ 645,221	\$ 1,356,359
Restricted cash	\$ 12,855	\$ 711,138	\$ 157,102	\$ 868,240
Restricted investments	-	-	488,119	488,119
Total restricted assets	\$ 12,855	\$ 711,138	\$ 645,221	\$ 1,356,359

I. Endowments

Civic Auditorium Permanent Trust Fund. For the year ended June 30, 2004, the net appreciation on investments of donor-restricted endowments was \$75,378. Under the terms of the endowment, and consistent with State statutes, the City is authorized based on a total-return policy to spend the net appreciation for the benefit of the civic auditorium. However, any such investment earnings not expended during a particular fiscal year must be added to the nonexpendable principal or endowment balance. Accordingly, no amounts are available for authorized expenditure at year-end.

Cemetery Perpetual Care Permanent Trust Fund. For the year ended June 30, 2004, the net depreciation on investments of perpetual care endowments was \$39,645. Under local ordinances and State statutes, the City is authorized based on a total-return policy to spend the net appreciation on the maintenance of the community cemetery. At June 30, 2004, accumulated available net appreciation of \$70,081 is reported in unrestricted net assets.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Lenawee County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$238,392,591 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2003-04 was 14.50 mills, with an additional 0.50 and 0.53 mills levied for wastewater debt retirement and general obligation bond retirement, respectively.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Tecumseh, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

C. Pension and postemployment health insurance benefit plan

The City has a single-employer defined benefit contributory pension plan, the City of Tecumseh Employees' Retirement System (the "Plan"), which provides retirement, death and disability benefits covering all of the City's full-time employees. The Plan also provides postemployment health insurance benefits to certain retirees and their beneficiaries, which are advance-funded on an actuarially determined basis. Membership of the Plan consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	22
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>60</u>
	<u>85</u>

Eligible members are required to contribute 5.5% to 6.73% of their annual compensation to the Plan with the City contributing such additional amounts, as necessary, to provide assets sufficient to pay for member benefits. The City's contribution to the Plan for the year ended June 30, 2004, represents 17.9% of the annual covered payroll.

The City of Tecumseh is the administrator of the Plan. Administrative costs of the Plan are financed through investment earnings. The Plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

Plan amendments are under the authority of the City of Tecumseh Ordinances. Changes in required contributions are subject to the approval of the City of Tecumseh Employees' Retirement System Board and the City Council.

The Plan's financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

CITY OF TECUMSEH, MICHIGAN

Notes to the Financial Statements

Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost, which approximates fair value; securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; investments that do not have established fair values are reported at estimated fair value; and cash deposits are reported at carrying amounts which reasonably approximates fair value.

The Plan's annual retirement benefits cost and net retirement benefits obligation for the current year were as follows:

Annual required contribution / retirement benefit cost	\$456,833
Contribution made	<u>456,833</u>
Decrease in net retirement benefit obligation	-
Net retirement benefit obligation, beginning of year	<u>-</u>
Net retirement benefit obligation, end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of an actuarial valuation of the Plan as of June 30, 2002, using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on investments of 7.5%; (b) projected salary increases of 5.5% attributable to inflation; (c) additional projected salary increases ranging from zero to 4.0%, depending on age, attributable to seniority/merit; (d) projected pension benefit increases of 2.8% annually after retirement; and (e) projected annual health care cost increases of 5.5% attributable to inflation.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 23 years from June 30, 2003.

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Retirement</u> <u>Benefit</u> <u>Cost</u> <u>(ARBC)</u>	<u>Percentage</u> <u>of ARBC</u> <u>Contributed</u>	<u>Net</u> <u>Retirement</u> <u>Benefit</u> <u>Obligation</u>
6/30/02	\$376,667	100%	\$ -
6/30/03	403,990	100	-
6/30/04	456,833	100	-

GASB Statement 25 required supplemental information is presented after the Notes to Financial Statements section of this report.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TECUMSEH, MICHIGAN

GASB Statement 25 Required Supplementary Information

Employees Retirement System

Schedule of Funding Progress

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date July 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (2-1)	Funded Ratio (1/2)	Covered Payroll	UAAL as a % of Covered Payroll (3/5)
1994	\$ 5,495,305	\$ 5,903,880	\$ 408,575	93.1 %	\$ 1,335,669	30.6 %
1995	5,909,477	6,352,640	443,163	93.0	1,484,724	29.8
1996	6,183,251	6,688,771	505,520	92.4	1,676,281	30.2
1997	6,643,928	7,166,601	522,673	92.7	1,741,161	30.0
1998	7,429,870	7,784,434	354,564	95.4	1,869,797	19.0
1999	8,286,539	8,451,775	165,236	98.0	2,051,823	8.1
2000	9,497,499	9,623,399	125,900	98.7	2,099,324	6.0
2001	10,334,242	10,390,868	56,626	99.5	2,235,223	2.5
2002	10,796,391	11,476,620	680,229	94.1	2,335,861	29.1
2003	11,326,122	12,831,205	1,505,083	88.3	2,474,789	60.8

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contribution	Annual Actual Contribution	Percentage Contributed
1995	\$ 67,377	\$ 67,377	100.0 %
1996	74,368	74,368	100.0
1997	111,820	111,820	100.0
1998	299,016	299,016	100.0
1999	328,411	328,411	100.0
2000	322,432	322,432	100.0
2001	343,918	343,918	100.0
2002	376,667	376,667	100.0
2003	403,989	403,989	100.0
2004	456,833	456,833	100.0

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

CITY OF TECUMSEH, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Economic Development</u>	<u>PA-48</u>	<u>Municipal Purchase</u>	<u>Wastewater Sinking</u>	<u>1996 GOB Debt Service</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 4,024	\$ 31,634	\$ 3	\$ 3,664	\$ 57,796
Investments	-	-	-	-	-
Accounts receivable	50	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 4,074</u>	<u>\$ 31,634</u>	<u>\$ 3</u>	<u>\$ 3,664</u>	<u>\$ 57,796</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable / accrued liabilities	\$ 2,483	\$ -	\$ -	\$ -	\$ -
Fund Balances					
Reserved for perpetual care	-	-	-	-	-
Unreserved:					
Designated for subsequent year	164	18,900	-	-	-
Undesignated	1,427	12,734	3	3,664	57,796
Total fund balances	1,591	31,634	3	3,664	57,796
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 4,074</u>	<u>\$ 31,634</u>	<u>\$ 3</u>	<u>\$ 3,664</u>	<u>\$ 57,796</u>

<u>Capital Projects Funds</u>		<u>Permanent</u>	<u>Total</u>
<u>Streetscape</u>	<u>S. Maumee</u>	<u>Fund</u>	<u>Nonmajor</u>
<u>Project</u>	<u>Reconstruction</u>	<u>Cemetery</u>	<u>Governmental</u>
<u>Care</u>			<u>Funds</u>
\$ 87,300	\$ 5,193	\$ 24,715	\$ 214,329
-	-	478,341	478,341
-	-	-	50
<u>\$ 87,300</u>	<u>\$ 5,193</u>	<u>\$ 503,056</u>	<u>\$ 692,720</u>

\$ -	\$ -	\$ -	\$ 2,483
-	-	432,975	432,975
-	-	-	19,064
<u>87,300</u>	<u>5,193</u>	<u>70,081</u>	<u>238,198</u>
<u>87,300</u>	<u>5,193</u>	<u>503,056</u>	<u>690,237</u>
<u>\$ 87,300</u>	<u>\$ 5,193</u>	<u>\$ 503,056</u>	<u>\$ 692,720</u>

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue Funds			Debt Service Funds	
	Economic Development	PA-48	Municipal Purchase	Wastewater Sinking	1996 GOB Debt Service
Revenues					
Taxes and special assessments	\$ -	\$ -	\$ -	\$ 122,620	\$ 129,977
Intergovernmental	-	25,646	-	-	-
Charges for services	-	-	-	-	-
Investment earnings (loss)	381	42	-	63	327
Total revenues	381	25,688	-	122,683	130,304
Expenditures					
Community development	168,930	-	1,247	-	-
Debt service:					
Principal	-	-	-	190,000	115,000
Interest and fiscal charges	-	-	-	4,380	22,422
Total expenditures	168,930	-	1,247	194,380	137,422
Revenues over (under) expenditures	(168,549)	25,688	(1,247)	(71,697)	(7,118)
Other financing sources (uses)					
Transfers in	163,000	-	1,250	67,996	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	163,000	-	1,250	67,996	-
Net changes in fund balances	(5,549)	25,688	3	(3,701)	(7,118)
Fund balances, beginning of year	7,140	5,946	-	7,365	64,914
Fund balances, end of year	\$ 1,591	\$ 31,634	\$ 3	\$ 3,664	\$ 57,796

Capital Projects Funds		Permanent Fund	Total Nonmajor Governmental Funds
Streetscape Project	S. Maumee Reconstruction	Cemetery Care	
\$ -	\$ -	\$ -	\$ 252,597
-	-	-	25,646
-	-	24,747	24,747
<u>2,287</u>	<u>26</u>	<u>(12,723)</u>	<u>(9,597)</u>
<u>2,287</u>	<u>26</u>	<u>12,024</u>	<u>293,393</u>
-	-	-	170,177
-	-	-	305,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>26,802</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>501,979</u>
<u>2,287</u>	<u>26</u>	<u>12,024</u>	<u>(208,586)</u>
-	-	-	232,246
<u>(80,027)</u>	<u>-</u>	<u>(45,000)</u>	<u>(125,027)</u>
<u>(80,027)</u>	<u>-</u>	<u>(45,000)</u>	<u>107,219</u>
(77,740)	26	(32,976)	(101,367)
<u>165,040</u>	<u>5,167</u>	<u>536,032</u>	<u>791,604</u>
<u>\$ 87,300</u>	<u>\$ 5,193</u>	<u>\$ 503,056</u>	<u>\$ 690,237</u>

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Economic Development Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 700	\$ 425	\$ 381	\$ (44)
Expenditures				
Community development	<u>182,335</u>	<u>168,931</u>	<u>168,930</u>	<u>(1)</u>
Revenues (under) expenditures	(181,635)	(168,506)	(168,549)	(43)
Other financing sources				
Transfers in	<u>177,000</u>	<u>161,000</u>	<u>163,000</u>	<u>2,000</u>
Net changes in fund balance	(4,635)	(7,506)	(5,549)	1,957
Fund balance, beginning of year	<u>5,442</u>	<u>7,140</u>	<u>7,140</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 807</u></u>	<u><u>\$ (366)</u></u>	<u><u>\$ 1,591</u></u>	<u><u>\$ 1,957</u></u>

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
PA-48 Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ 26,000	\$ 25,646	\$ (354)
Investment earnings	-	-	42	42
Total revenues	-	26,000	25,688	(312)
Expenditures				
Community development	-	-	-	-
Revenues (under) expenditures	-	26,000	25,688	(312)
Other financing sources				
Transfers in	-	-	-	-
Net changes in fund balance	-	26,000	25,688	(312)
Fund balance, beginning of year	-	5,946	5,946	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ 31,946</u>	<u>\$ 31,634</u>	<u>\$ (312)</u>

CITY OF TECUMSEH, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Municipal Purchase Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Investment earnings	\$ -	\$ -		\$ -	\$ -
Expenditures					
Community development	-	1,250		1,247	(3)
Revenues (under) expenditures	-	(1,250)		(1,247)	3
Other financing sources					
Transfers in	-	1,250		1,250	-
Net changes in fund balance	-	-		3	3
Fund balance, beginning of year	-	-		-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 3</u>	<u>\$ 3</u>

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2004

	<u>Current Tax</u>	<u>Delinquent Tax</u>	<u>Lenawee County D.A.R.E.</u>	<u>Police Officers Emergency</u>	<u>Memorial Day Parade</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 7,764	\$ -	\$ 3,418	\$ 1,599	\$ 3,166	\$ 15,947
Delinquent taxes receivable	-	348,010	-	-	-	348,010
Total assets	<u>\$ 7,764</u>	<u>\$ 348,010</u>	<u>\$ 3,418</u>	<u>\$ 1,599</u>	<u>\$ 3,166</u>	<u>\$363,957</u>
Liabilities						
Accounts payable	\$ 5	\$ 91,868	\$ -	\$ -	\$ 200	\$ 92,073
Due to other governments	7,759	256,142	3,418	1,599	2,966	271,884
Total liabilities	<u>\$ 7,764</u>	<u>\$ 348,010</u>	<u>\$ 3,418</u>	<u>\$ 1,599</u>	<u>\$ 3,166</u>	<u>\$363,957</u>

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Current Tax</u>				
Assets				
Cash	<u>\$ 2,512</u>	<u>\$ 19,693,742</u>	<u>\$ 19,688,490</u>	<u>\$ 7,764</u>
Liabilities				
Accounts payable	\$ 2	\$ 3,845,245	\$ 3,845,242	\$ 5
Due to other governments	<u>2,510</u>	<u>8,073,037</u>	<u>8,067,788</u>	<u>7,759</u>
Total liabilities	<u>\$ 2,512</u>	<u>\$ 11,918,282</u>	<u>\$ 11,913,030</u>	<u>\$ 7,764</u>
<u>Delinquent Tax</u>				
Assets				
Cash	\$ -	\$ 23,151	\$ 23,151	\$ -
Delinquent taxes receivable	<u>270,968</u>	<u>92,442</u>	<u>15,400</u>	<u>348,010</u>
Total assets	<u>\$ 270,968</u>	<u>\$ 115,593</u>	<u>\$ 38,551</u>	<u>\$ 348,010</u>
Liabilities				
Accounts payable	\$ 70,380	\$ 26,985	\$ 5,497	\$ 91,868
Due to other governments	<u>200,588</u>	<u>66,522</u>	<u>10,968</u>	<u>256,142</u>
Total liabilities	<u>\$ 270,968</u>	<u>\$ 93,507</u>	<u>\$ 16,465</u>	<u>\$ 348,010</u>
<u>Lenawee County D.A.R.E.</u>				
Assets				
Cash	<u>\$ 9,280</u>	<u>\$ 9,246</u>	<u>\$ 15,108</u>	<u>\$ 3,418</u>
Liabilities				
Accounts payable	\$ 727	\$ 6,827	\$ 7,554	\$ -
Due to other governments	<u>8,553</u>	<u>1,692</u>	<u>6,827</u>	<u>3,418</u>
Total liabilities	<u>\$ 9,280</u>	<u>\$ 8,519</u>	<u>\$ 14,381</u>	<u>\$ 3,418</u>

Continued...

CITY OF TECUMSEH, MICHIGAN
Combining Statement of Changes in Assets and Liabilities (Concluded)
Agency Funds
For the Year Ended June 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Police Officers Emergency</u>				
Assets				
Cash	\$ 1,591	\$ 8	\$ -	\$ 1,599
Liabilities				
Due to other governments	\$ 1,591	\$ 8	\$ -	\$ 1,599
<u>Memorial Day Parade</u>				
Assets				
Cash	\$ 597	\$ 7,118	\$ 4,549	\$ 3,166
Liabilities				
Accounts payable	\$ -	\$ 200	\$ -	\$ 200
Due to other governments	597	6,918	4,549	2,966
	<u>\$ 597</u>	<u>\$ 7,118</u>	<u>\$ 4,549</u>	<u>\$ 3,166</u>
<u>Total All Agency Funds</u>				
Assets				
Cash	\$ 13,980	\$ 19,733,265	\$ 19,731,298	\$ 15,947
Delinquent taxes receivable	270,968	92,442	15,400	348,010
Total assets	<u>\$ 284,948</u>	<u>\$ 19,825,707</u>	<u>\$ 19,746,698</u>	<u>\$ 363,957</u>
Liabilities				
Accounts payable	\$ 71,109	\$ 3,879,257	\$ 3,858,293	\$ 92,073
Due to other governments	213,839	8,148,177	8,090,132	271,884
Total liabilities	<u>\$ 284,948</u>	<u>\$ 12,027,434</u>	<u>\$ 11,948,425</u>	<u>\$ 363,957</u>

CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules By Source
June 30, 2004

	<u>2004</u>	<u>2003</u>
Governmental Funds Capital Assets:		
Land	\$ 2,613,273	\$ 2,613,273
Land improvements	1,089,006	339,918
Buildings	6,505,676	6,427,206
Vehicles	891,874	898,449
Equipment	1,875,617	1,729,569
Infrastructure	6,996,356	6,134,556
Total Governmental Funds Capital Assets	<u><u>\$ 19,971,802</u></u>	<u><u>\$ 18,142,971</u></u>
Investments in Governmental Funds Capital Assets By Source		
General fund	\$ 9,214,622	\$ 9,336,597
Special revenue funds	6,487,279	6,176,403
Capital projects funds	3,290,152	2,201,146
Donations	979,749	428,825
Total Investments in Governmental Funds Capital Assets By Source	<u><u>\$ 19,971,802</u></u>	<u><u>\$ 18,142,971</u></u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2004

	Land		Buildings	Vehicles	Equipment	Infrastructure	Total
	Land	Improvements					
General government							
Administration	\$ 685,503	\$ -	\$ 583,583	\$ 26,892	\$ 232,000	\$ -	\$ 1,527,978
Clerk	-	-	-	-	128,195	-	128,195
Assessor	-	-	-	-	12,998	-	12,998
Treasurer	-	-	-	-	20,154	-	20,154
Development services	-	-	-	-	20,760	-	20,760
Economic development	277,000	1,089,006	-	-	8,701	-	1,374,707
Cemetery	-	-	189,383	-	5,000	-	194,383
Total general government	962,503	1,089,006	772,966	26,892	427,808	-	3,279,175
Public safety							
Police	-	-	1,101,146	351,143	137,064	-	1,589,353
Fire	-	-	1,113,430	513,839	761,507	-	2,388,776
Total public safety	-	-	2,214,576	864,982	898,571	-	3,978,129
Public works	-	-	277,901	-	45,698	6,996,356	7,319,955
Parks and recreation	1,518,017	-	1,591,194	-	146,218	-	3,255,429
Civic Auditorium	132,753	-	1,649,039	-	357,322	-	2,139,114
Total Governmental Funds Capital Assets	\$ 2,613,273	\$ 1,089,006	\$ 6,505,676	\$ 891,874	\$ 1,875,617	\$ 6,996,356	\$ 19,971,802

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

CITY OF TECUMSEH, MICHIGAN
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the Year Ended June 30, 2004

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General government				
Administration	\$ 1,527,978	\$ -	\$ -	\$ 1,527,978
Clerk	128,195	-	-	128,195
Assessor	12,998	-	-	12,998
Treasurer	20,823	-	(669)	20,154
Development services	20,760	-	-	20,760
Economic development	625,619	749,088	-	1,374,707
Cemetery	200,582	-	(6,199)	194,383
Total general government	2,536,955	749,088	(6,868)	3,279,175
Public safety				
Police	1,585,928	20,780	(17,355)	1,589,353
Fire	2,337,107	61,669	(10,000)	2,388,776
Total public safety	3,923,035	82,449	(27,355)	3,978,129
Public works	6,458,155	861,800	-	7,319,955
Parks and recreation	3,170,568	84,861	-	3,255,429
Civic Auditorium	2,054,258	84,856	-	2,139,114
Total Governmental Funds				
Capital Assets	\$ 18,142,971	\$ 1,863,054	\$ (34,223)	\$ 19,971,802

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. The capital assets of the internal service fund are included as governmental activities in the statement of net assets.

DISCRETELY PRESENTED COMPONENT UNIT

CITY OF TECUMSEH, MICHIGAN
Statement of Net Assets and
Governmental Funds Balance Sheet
Downtown Development Authority Component Unit
June 30, 2004

	<u>Special Revenue Operating Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets						
Cash and cash equivalents	\$ 95,570	\$ 2,258	\$ 29,508	\$ 127,336	\$ -	\$ 127,336
Receivables	380	-	-	380	-	380
Unamortized bond issuance costs	-	-	-	-	59,024	59,024
Capital assets, net	-	-	-	-	56,000	56,000
Total assets	<u>\$ 95,950</u>	<u>\$ 2,258</u>	<u>\$ 29,508</u>	<u>\$ 127,716</u>	<u>115,024</u>	<u>242,740</u>
Liabilities						
Accounts payable / accrued liabilities	\$ 95,345	\$ -	\$ -	\$ 95,345	-	95,345
Accrued interest payable	-	-	-	-	6,013	6,013
Unamortized bond premium	-	-	-	-	13,843	13,843
Long-term liabilities:						
Due within one year	-	-	-	-	65,000	65,000
Due in more than one year	-	-	-	-	1,480,000	1,480,000
Total liabilities	<u>95,345</u>	<u>-</u>	<u>-</u>	<u>95,345</u>	<u>1,564,856</u>	<u>1,660,201</u>
Fund balances / net assets						
Unreserved, undesignated	<u>605</u>	<u>2,258</u>	<u>29,508</u>	<u>32,371</u>	<u>(32,371)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 95,950</u>	<u>\$ 2,258</u>	<u>\$ 29,508</u>	<u>\$ 127,716</u>		
Net assets:						
Invested in capital assets, net of related debt					56,000	56,000
Restricted for debt service					2,258	2,258
Restricted for capital projects					29,508	29,508
Unrestricted (deficit)					(1,505,227)	(1,505,227)
Total net assets (deficit)					<u>\$ (1,417,461)</u>	<u>\$ (1,417,461)</u>

CITY OF TECUMSEH, MICHIGAN
Statement of Activities and
Governmental Fund Revenues, Expenditures
and Changes in Fund Balance
Downtown Development Authority Component Unit
For the Year Ended June 30, 2004

	<u>Special Revenue Operating Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses						
Community development	\$ 39,226	\$ -	\$ 749,089	\$ 788,315	\$ 3,472	\$ 791,787
Debt service:						
Principal	-	55,000	-	55,000	(55,000)	-
Interest and fiscal charges	-	74,221	-	74,221	(149)	74,072
Total expenditures/expenses	<u>39,226</u>	<u>129,221</u>	<u>749,089</u>	<u>917,536</u>	<u>(51,677)</u>	<u>865,859</u>
General revenues						
Property taxes	200,191	-	-	200,191	-	200,191
Intergovernmental	-	-	-	-	-	-
Investment earnings	418	21	1,715	2,154	815	2,969
Total general revenues	<u>200,609</u>	<u>21</u>	<u>1,715</u>	<u>202,345</u>	<u>815</u>	<u>203,160</u>
Excess of general revenues over (under) expenditures/expenses	161,383	(129,200)	(747,374)	(715,191)	52,492	(662,699)
Other financing sources (uses)						
Transfers in (out)	<u>(105,367)</u>	<u>129,221</u>	<u>(23,854)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	56,016	21	(771,228)	(715,191)	715,191	-
Change in net assets	-	-	-	-	(662,699)	(662,699)
Fund balance/net assets, beginning of year	<u>(55,411)</u>	<u>2,237</u>	<u>800,736</u>	<u>747,562</u>	<u>(1,502,324)</u>	<u>(754,762)</u>
Fund balance/net assets (deficit), end of year	<u>\$ 605</u>	<u>\$ 2,258</u>	<u>\$ 29,508</u>	<u>\$ 32,371</u>	<u>\$ (1,449,832)</u>	<u>\$ (1,417,461)</u>

STATISTICAL SECTION

Table 1

CITY OF TECUMSEH, MICHIGAN
Government-wide Revenues by Source - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Program revenues										
Charges for services	\$ 1,873,137	\$ 1,899,518	\$ 1,866,749	\$ 1,852,107	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating grants and contributions	1,297,695	711,872	1,109,205	1,182,722	-	-	-	-	-	-
Capital grants and contributions	2,074,397	658,758	1,299,704	206,081	-	-	-	-	-	-
General revenues										
Property taxes	3,730,787	3,578,655	3,316,311	3,092,865	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	900,596	930,877	1,058,907	1,032,572	-	-	-	-	-	-
Unrestricted investment earnings	33,579	68,225	129,502	312,614	-	-	-	-	-	-
Gain (loss) on sale of capital assets	22,950	25,335	30,880	(52,129)	-	-	-	-	-	-
Contributions to permanent funds										
	24,747	19,213	15,387	13,188	-	-	-	-	-	-
	\$ 9,957,888	\$ 7,892,453	\$ 8,826,645	\$ 7,640,020	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Government-wide Expenses by Function - Unaudited
Last Ten Fiscal Years Ended June 30 (1)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government										
Public safety	\$ 1,902,129	\$ 1,968,749	\$ 1,563,111	\$ 1,737,172	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public works	1,959,801	2,026,623	1,844,880	1,710,834	-	-	-	-	-	-
Parks and recreation	879,861	968,094	1,071,418	819,019	-	-	-	-	-	-
Civic auditorium	509,510	532,872	938,994	346,490	-	-	-	-	-	-
Community development	554,277	506,451	377,877	329,252	-	-	-	-	-	-
Interest on long-term debt	200,407	169,014	145,892	146,956	-	-	-	-	-	-
Wastewater	32,422	55,084	49,387	61,304	-	-	-	-	-	-
Water	1,063,244	1,026,630	1,006,304	935,352	-	-	-	-	-	-
	617,593	590,288	589,486	540,488	-	-	-	-	-	-
	\$ 7,719,244	\$ 7,843,805	\$ 7,587,349	\$ 6,626,867	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

(1) The City implemented GASB Statement No. 34 as of and for the fiscal year ended June 30, 2001. Accordingly, data prior to fiscal 2000-01 is not available.

Table 2

CITY OF TECUMSEH, MICHIGAN
General Governmental Revenue by Source (1) - Unaudited
Last Ten Fiscal Years Ended June 30

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Taxes and special assessments	\$ 3,730,787	\$ 3,615,385	\$ 3,390,541	\$ 3,108,053	\$ 2,957,394	\$ 2,871,520	\$ 2,623,615	\$ 2,454,235	\$ 2,261,409	\$ 2,219,279
Licenses and permits	194,289	171,027	207,669	208,801	144,150	147,679	124,765	137,542	92,727	68,001
Intergovernmental	1,543,543	1,527,797	1,842,030	1,615,889	1,468,659	1,478,894	1,385,112	1,259,358	1,320,477	1,124,191
Charges for services	510,974	463,016	562,692	372,842	267,764	238,295	219,209	202,309	200,674	188,241
Fines and forfeitures	40,445	36,482	33,357	36,837	38,981	32,791	30,277	32,191	28,050	26,503
Investment earnings	76,644	37,694	364,988	607,935	162,193	145,405	138,537	111,840	97,378	91,138
Contributions and other revenue	681,979	179,302	594,781	197,796	168,611	201,377	104,391	107,779	107,829	305,176
	<u>\$ 6,778,661</u>	<u>\$ 6,030,703</u>	<u>\$ 6,996,058</u>	<u>\$ 6,148,153</u>	<u>\$ 5,207,752</u>	<u>\$ 5,115,961</u>	<u>\$ 4,625,906</u>	<u>\$ 4,305,254</u>	<u>\$ 4,108,544</u>	<u>\$ 4,022,529</u>

General Governmental Expenditures by Function (1) - Unaudited
Last Ten Fiscal Years Ended June 30

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	\$ 1,848,328	\$ 1,952,095	\$ 1,892,067	\$ 1,728,345	\$ 1,918,618	\$ 1,717,127	\$ 1,512,182	\$ 1,503,290	\$ 1,296,805	\$ 1,211,542
Public safety	1,871,376	2,217,056	1,991,089	1,664,314	1,549,888	1,529,975	1,379,051	1,335,326	1,284,911	1,262,655
Public works	1,057,214	1,512,683	1,319,727	1,151,117	1,085,173	1,138,863	831,727	928,331	806,348	955,440
Parks and recreation	542,412	498,390	895,397	481,635	416,066	408,578	431,561	317,881	430,613	300,814
Civic auditorium (2)	570,952	481,801	409,440	282,478	-	-	-	-	-	-
Community development	170,177	168,393	152,964	144,582	128,966	115,951	97,834	91,261	15,333	-
Debt service	396,637	414,140	332,710	319,888	311,960	282,435	263,029	176,360	162,760	173,780
	<u>\$ 6,457,096</u>	<u>\$ 7,244,558</u>	<u>\$ 6,993,394</u>	<u>\$ 5,772,359</u>	<u>\$ 5,410,671</u>	<u>\$ 5,192,929</u>	<u>\$ 4,515,384</u>	<u>\$ 4,352,449</u>	<u>\$ 3,996,770</u>	<u>\$ 3,904,231</u>

(1) Includes general, special revenue and debt service funds through June 30, 2000; includes all governmental funds thereafter.

(2) Beginning with the fiscal year ended June 30, 2001, the Civic Auditorium Fund was reclassified from an enterprise fund to special revenue fund.

Table 3

CITY OF TECUMSEH, MICHIGAN
Property Taxes Levied and Collected - Unaudited
Last Ten Fiscal Years

(1) Fiscal Year Ended June 30,	(2) Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	(3) Delinquent Tax Collections	Total Tax Collections	Ratio of Total Tax Collections to Total Tax Levy
2004	\$ 3,830,362	\$ 3,733,713	97.5%	\$ 85,249	\$ 3,818,962	99.7%
2003	3,676,747	3,579,371	97.4%	81,419	3,660,790	99.6%
2002	3,400,837	3,242,042	95.3%	75,641	3,317,683	97.6%
2001	3,163,481	3,070,613	97.1%	75,506	3,146,119	99.5%
2000	3,016,442	2,944,504	97.6%	69,585	3,014,089	99.9%
1999	2,877,550	2,780,701	96.6%	95,900	2,876,601	100.0%
1998	2,707,798	2,625,782	97.0%	80,964	2,706,746	100.0%
1997	2,440,396	2,366,291	97.0%	71,168	2,437,459	99.9%
1996	2,307,979	2,223,820	96.4%	80,475	2,304,295	99.8%
1995	2,198,472	2,118,023	96.3%	74,377	2,192,400	99.7%

(1) Property taxes are levied July 1 of the current fiscal year based on taxable property values as of the preceding December 31. Unpaid property taxes become delinquent as of September 1 of the current fiscal year. The City's delinquent real property taxes are purchased by the Lenawee County Delinquent Tax Revolving Fund. Uncollected personal property taxes must be collected by the City Treasurer.

(2) Includes Industrial Facility Tax.

(3) Includes settlement from Lenawee County Delinquent Tax Revolving for purchase of delinquent real property taxes.

Table 4

CITY OF TECUMSEH, MICHIGAN
Assessed and Estimated Actual Value of Property - Unaudited
Last Ten Fiscal Years

As of December 31,	Real Property (2)		Personal Property (2)		Total		Ratio of Assessed to Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2002	\$ 239,010,000	\$ 478,020,000	\$ 23,415,100	\$ 46,830,200	\$ 262,425,100	\$ 524,850,200	50.00%
2001	216,363,000	434,479,001	22,217,200	44,434,400	238,580,200	478,913,401	49.82%
2000	198,169,700	396,494,927	19,977,800	39,955,600	218,147,500	436,450,527	49.98%
1999	185,332,200	370,664,400	21,275,900	42,551,800	206,608,100	413,216,200	50.00%
1998	173,403,063	346,806,126	34,652,920	69,305,840	208,055,983	416,111,966	50.00%
1997	162,938,094	325,876,188	39,362,945	78,725,890	202,301,039	404,602,078	50.00%
1996	161,653,400	323,306,800	42,300,600	84,601,200	203,954,000	407,908,000	50.00%
1995	150,971,800	301,943,600	42,879,703	85,759,406	193,851,503	387,703,006	50.00%
1994	132,607,530	265,215,060	40,830,100	81,660,200	173,437,630	346,875,260	50.00%
1993	127,616,550	255,233,100	36,538,600	73,077,200	164,155,150	328,310,300	50.00%

(1) Property taxes are levied July 1 of the succeeding fiscal year based on assessed values (taxable values beginning in 1994) as of December 31.

(2) Includes properties subject to Industrial Facility Tax exemptions.

Table 5

CITY OF TECUMSEH, MICHIGAN
Property Tax Rates (1) - Unaudited
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year Ended June 30,	City	Tecumseh Public Schools	State Education Tax	Lenawee Intermediate School District	County	Tecumseh District Library	Totals	
							Homestead	Non- Homestead
2004	15.5300	23.2906	5.0000	7.4867	5.7730	1.1500	42.1397	58.2303
2003	15.5600	23.2907	6.0000	7.5465	5.8191	-	42.1256	58.2163
2002	15.5600	25.0290	6.0000	7.6449	5.6165	-	42.0214	59.8504
2001	15.5600	23.3290	6.0000	7.7073	5.6420	-	40.4093	58.2383
2000	15.5600	23.3290	6.0000	6.6073	5.6555	-	39.3228	57.1518
1999	15.5600	19.1000	6.0000	6.6849	5.6178	-	34.9627	52.9627
1998	15.6500	19.1000	6.0000	6.6949	5.7385	-	35.1834	53.1834
1997	14.9500	19.1000	6.0000	6.6949	5.7361	-	34.4810	52.4810
1996	14.9500	19.1650	6.0000	6.6949	5.4203	-	34.2302	52.2302
1995	14.9500	19.7500	6.0000	6.6949	5.2744	-	34.6693	52.6693

(1) Per \$1,000 of equalized value.

(2) Passage of Proposal A in 1994 reduced operating millage for Tecumseh Public Schools to 18 mills for non-homestead properties and exempted homestead properties. Both homestead and non-homestead properties are subject to the State Education Tax of 6 mills as well as any debt service levy. For 2003 the State Education Tax was reduced to 5 mills for one year only due to a statewide summer tax collection.

SOURCES: Annual Apportionment Report of Lenawee County

Table 6

CITY OF TECUMSEH, MICHIGAN
Revenue Bond Coverage - Unaudited
Water Fund
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Gross Revenue	(2) Operating Expenses	Net Revenue Available for Debt Service	Total Debt Service Requirement	Coverage
2004	\$ 587,524	\$ 539,095	\$ 48,429	\$ 64,535	0.75
2003	621,406	518,899	102,507	61,853	1.66
2002	630,080	524,184	105,896	63,990	1.65
2001	636,214	469,035	167,179	61,115	2.74
2000	650,330	430,745	219,585	58,433	3.76
1999	636,421	456,408	180,013	59,835	3.01
1998	633,748	441,075	192,673	56,373	3.42
1997	596,394	414,301	182,093	58,310	3.12
1996	555,868	353,877	201,991	59,447	3.40
1995	522,469	345,708	176,761	55,723	3.17

(1) Includes investment income.

(2) Excludes depreciation expense.

Table 7

CITY OF TECUMSEH, MICHIGAN
Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	(1) Population	(2) Taxable Value	(3) Gross Bonded Debt	(4) Less Debt Service Fund Amounts	(5) Less Self- Supporting Portions	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2004	8,574	\$ 262,425,100	\$ 415,000	\$ 61,460	-	\$ 353,540	0.13%	\$ 41
2003	8,574	238,580,200	720,000	72,279	-	647,721	0.27%	76
2002	8,574	218,147,500	1,020,000	77,039	-	942,961	0.43%	110
2001	8,574	206,608,100	1,300,000	88,354	-	1,211,646	0.59%	141
2000	8,350	208,055,983	1,555,000	86,829	-	1,468,171	0.71%	176
1999	8,350	202,301,039	1,790,000	82,359	-	1,707,641	0.84%	205
1998	8,032	203,954,000	1,985,000	46,058	-	1,938,942	0.95%	241
1997	7,942	193,851,503	2,140,000	5,963	-	2,134,037	1.10%	269
1996	7,942	173,437,630	1,290,000	5,175	-	1,284,825	0.74%	162
1995	7,942	164,155,150	1,395,000	372	-	1,394,628	0.85%	176

(1) From Table 11.

(2) From Table 4.

(3) Amounts do not include revenue bonds or discretely presented component units.

(4) Represents amounts available for repayment of general obligation bonds.

(5) Represents amounts, if any, that are being repaid from Enterprise funds.

Table 8

CITY OF TECUMSEH, MICHIGAN
Computation of Legal Debt Margin - Unaudited

Taxable Value (1)		<u>\$ 238,580,200</u>
Legal debt limit (10% of Taxable Value) (2)		\$ 23,858,020
Debt applicable to limitation:		
Gross bonded debt of City (3)	\$ 2,190,000	
Less: Revenue bonds	(230,000)	
Amounts available for repayment of general obligation bonds	<u>(72,279)</u>	
		<u>1,887,721</u>
LEGAL DEBT MARGIN		<u>\$ 21,970,299</u>

(1) Includes properties subject to Industrial Facility Tax exemptions.

(2) Article VII, Paragraph II of the Constitution of the State of Michigan of 1963, as amended.

(3) Includes discretely presented component units.

Table 9

CITY OF TECUMSEH, MICHIGAN
Computation of Direct and Overlapping Bonded Debt - Unaudited

	(1) Net Debt Outstanding	Percentage Applicable to City of Tecumseh	Amount Applicable to City of Tecumseh
Direct:			
City issued bonded debt (2)	\$ 1,960,000	100.00%	\$ 1,960,000
Overlapping:			
Lenawee County	9,000,000	9.09%	818,100
Tecumseh Public Schools	57,165,390	47.01%	26,873,450
			<u>27,691,550</u>
 TOTAL			 <u>\$ 29,651,550</u>

(1) Excludes self-supporting debt.

(2) Includes discretely presented component unit.

SOURCE: 2003 Lenawee County Apportionment Report and L-4029.

Table 10

CITY OF TECUMSEH, MICHIGAN
Ratio of Annual Debt Service Expenditures
for General Bonded Debt to Total
General Governmental Expenditures - Unaudited
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Annual Debt Service	Total General Governmental Expenditures (1)	Ratio
2004	\$ 396,637	\$ 6,457,096	6.1%
2003	414,140	7,244,558	5.7%
2002	332,710	6,993,394	4.8%
2001	319,888	5,772,359	5.5%
2000	311,960	5,410,671	5.8%
1999	282,435	5,192,929	5.4%
1998	263,029	4,515,384	5.8%
1997	176,360	4,352,449	4.1%
1996	162,760	3,996,770	4.1%
1995	173,780	3,904,231	4.5%

(1) Includes general, special revenue and debt service funds through 6/30/00;
all governmental funds thereafter.

CITY OF TECUMSEH, MICHIGAN
Demographic Statistics - Unaudited

Table 11

<u>Year</u>	<u>Population</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2003	8,574 (4)	3,460	6.6%
2002	8,574 (4)	3,413	5.9%
2001	8,574 (4)	3,312	5.3%
2000	8,574 (4)	3,250	3.3%
1999	8,350 (1)	3,258	3.2%
1998	8,350 (3)	3,218	2.9%
1997	8,032 (2)	3,180	3.5%
1996	7,942 (1)	3,170	4.1%
1995	7,942 (1)	3,109	4.8%
1994	7,942	3,056	4.4%

<u>Year</u>	<u>Population</u>	<u>Median Age</u>
2000	8,574	36.3
1990	7,462	33.6
1980	7,320	30.0
1970	7,120	27.4
1960	7,045	-
1950	4,020	-

(1) Estimate not yet prepared; amount from prior year used.

(2) Estimate as of July 1996

(3) Estimate as of 1998 per Census Bureau

(4) Per 2000 Census

SOURCES:

Population - Michigan Information Center, Department of Management and Budget

School Enrollment - Tecumseh Public Schools

Unemployment Rate - Michigan Department of Career Development

Table 12

CITY OF TECUMSEH, MICHIGAN
Property Value, Construction and Bank Deposits (1) - Unaudited
Last Ten Fiscal Years

Year	Commercial Construction		Residential Construction	
	Number of Units	Value	Number of Units	Value
2003	3	\$ 500,000	51	\$ 5,500,000
2002	4	1,800,000	63	8,657,000
2001	4	2,200,000	58	8,126,000
2000	2	1,200,000	45	6,228,400
1999	4	1,400,000	61	7,607,300
1998	2	650,000	90	10,981,500
1997	6	2,405,000	74	10,617,088
1996	7	1,171,000	60	6,659,500
1995	4	1,252,400	39	5,006,200
1994	-	-	18	2,291,300

Equalized Property Values						
As of December 31,		Commercial	Industrial	Residential	Development	Personal
2002	(2)	\$ 34,105,341	\$ 18,334,920	\$ 165,460,515	\$ 518,158	\$ 21,311,048
2001	(2)	31,983,557	18,365,216	156,595,602	336,101	23,412,231
2000	(2)	30,146,094	8,713,750	145,411,892	485,318	22,213,103
1999	(2)	28,127,817	7,464,029	134,755,859	521,134	19,972,513
1998	(2)	26,983,968	7,175,086	124,406,644	656,865	21,274,220
1997	(2)	25,986,526	7,048,101	115,508,935	479,632	18,595,345
1996	(2)	23,233,864	5,928,208	95,797,042	415,070	18,142,006
1995	(2)	22,414,631	19,519,957	90,355,887	317,055	40,830,100
1994	(2)	21,272,100	18,901,300	87,136,150	307,000	36,538,600
1993	(3)	19,362,100	18,922,300	83,290,400	307,000	39,664,470

(1) Complete and/or reliable construction and bank deposit data not currently available.

(2) Based on "taxable value."

(3) Based on "assessed value."

CITY OF TECUMSEH, MICHIGAN
Principal Taxpayers - Unaudited

Table 13

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Valuation (1)</u>	<u>Percentage of Total Taxable Valuation</u>
Lenawee Stamping Corporation	Manufacturing	\$ 21,229,918	8.90%
Tecumseh Products Company	Manufacturing	14,619,980	6.13%
Consumers Power Company	Public Utility	3,454,509	1.45%
Ervin Industries	Manufacturing	2,566,332	1.08%
Tecumseh Place Apartments	Housing	2,276,939	0.95%
United Bank and Trust	Banking	2,251,070	0.94%
Tecumseh Plaza	Retail	2,250,000	0.94%
D.J. Martin	Retail / Sales	2,084,829	0.87%
Tecumseh Corrugated Box	Manufacturing	1,717,375	0.72%
Glycon, Inc.	Manufacturing	1,198,830	0.50%
		<u>\$ 53,649,782</u>	<u>22.49%</u>

(1) Includes ad valorem and Industrials Facilities Tax property (at full value).

SOURCE: Treasurer, City of Tecumseh

CITY OF TECUMSEH, MICHIGAN
Miscellaneous Statistics - Unaudited

Table 14

Date of Incorporation	1954
Form of Government	Council/Manager
Number of employees (excluding police and fire):	
Full-time	38
Part-time	11
Seasonal	192
Area in square miles	5.372
Election data (November 2003 general election)	
Number of registered voters	5,812
Number of ballots cast	195
Percentage of participating voters	3.4%
City of Tecumseh facilities and services:	
Miles of streets:	
Major streets	16.57
Local streets	27.85
Number of street lights:	
Mercury vapor	472
High pressure sodium	71
Culture and recreation:	
Community centers	1
Parks (including undeveloped land and green space)	17
Park acreage (City-owned)	355
Park acreage (School-owned)	91
Swimming pools (School-owned)	1
Outdoor swimming area	1
Tennis courts	5
Playgrounds (City-owned)	6
Playgrounds (School-owned)	5
In-line skating rinks	1
Bike/Skate parks	1
Gazebo	1
Fire Protection:	
Number of stations	1
Number of fire personnel and officers:	
Full-time	4
Paid on-call	21
Number of calls answered	598
Number of inspections conducted	15

(continued)

Table 14
(concluded)

Police Protection:	
Number of stations	
Number of police personnel and officers:	1
Full-time officers	
Full-time dispatcher	15
Part-time dispatchers	2
Part-time Animal Control	3
Number of patrol units	1
Number of law violations:	6
Physical arrests	
Traffic violations	237
Parking violations	980
Uniform Crime Reporting (Part I and II)	27
Wastewater System:	489
Miles of sanitary sewers	
Miles of storm sewers	52
Number of treatment plants	20
Daily average treatment (in gallons)	1
Maximum daily capacity of treatment plant (in gallons)	894,332
Water System:	1,610,000
Miles of water mains	
Number of service connections:	56
Combined water and sewer	
Water only	3,630
Sewer only	41
Number of fire hydrants	18
Daily average consumption (in gallons)	411
Maximum daily capacity of water plant (in gallons)	1,116,461
Storage tanks (500,000 gallon capacity)	5,000,000
	1
Facilities and services not included in the primary government:	
Cable Television System:	
Miles of service	
Number of satellite receiving stations	57
Education:	-
Number of elementary schools	
Number of elementary school instructors	4
Number of secondary schools	73
Number of secondary school instructors	2
Number of counselors	119
Number of administration	5
	18
Facilities and services not included in reporting entity:	
Hospitals:	
Number of hospitals	
Number of patient beds	1
	94

Table 15

CITY OF TECUMSEH, MICHIGAN
Salaries and Surety Bonds of Principal Officials - Unaudited

Name and Title of Official		Annual Salary	Amount of Surety Bond
Manager	Kevin M. Welch	\$82,992	\$25,000
Assessor	Amanda Lacelle	30,368	25,000
Cemetery Supervisor	Dan Righter	44,358	25,000
Clerk	Laura Caterina	51,975	25,000
Civic Auditorium Executive Director	Robert Steele	56,682	25,000
Development Services Director	Bradley Raymond	58,472	25,000
Public Works Director	Steven Johnston	65,468	25,000
Emergency Services Chief	Joseph C. Tuckey	53,102	25,000
Parks & Recreation Director	Pat Paul Sorise	59,517	25,000
Police Chief	Macklin Haun	65,468	25,000
Public Utilities Director	John W. Curth	71,343	25,000
Treasurer	Dianne M. Sackett	53,102	25,000
Economic Development Director	Paula Holtz	59,517	25,000

SOURCE: City of Tecumseh



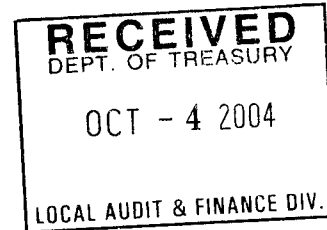
REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 11, 2004



To the City Council
City of Tecumseh, Michigan

We have audited the financial statements of the *City of Tecumseh, Michigan* for the year ended June 30, 2004, and have issued our report thereon dated August 11, 2004. Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated July 14, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2004. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that, in our judgment, both individually and in the aggregate, had a significant effect on the City, all of which were recorded by the City, and are reflected in the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information and the attached memorandum are intended for the use of the City Council and management of the City of Tecumseh and the State of Michigan. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style.

CITY OF TECUMSEH, MICHIGAN

COMMENTS AND RECOMMENDATIONS

For the Year Ended June 30, 2004

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters, and does not affect our report dated August 11, 2004, on the financial statements of the City of Tecumseh, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

Civic Auditorium Credit Card Usage

During the year we noted that items were acquired using the credit card assigned to the Civic Auditorium that probably could have been purchased through normal City purchasing and cash disbursement procedures. As a result, situations occurred during the year where the credit limit was reached and, in one instance, a purchase was made piecemeal to circumvent the established transaction limit.

While each of the purchases using the card appear to be valid and justified, the use of the credit card should be restricted to those items where timing is critical or cannot be reasonably be completed through the City's normal purchasing and cash disbursements procedures. The City Manager should further review this matter and make appropriate recommendations to the City Council for modifications to the credit card usage policies.

* * * * *